

Copyright  
by  
Hung-chang Kuan  
2007

**The Dissertation Committee for Hung-chang Kuan Certifies that this is the  
approved version of the following dissertation:**

**Taiwan in Cross-Strait Relations:  
1987- 2004**

**Committee:**

---

Tse-min Lin, Co-Supervisor

---

Peter Trubowitz, Co-Supervisor

---

Melvin J. Hinich

---

Patrick J. McDonald

---

Jih-wen Lin

**Taiwan in Cross-Strait Relations:  
1987- 2004**

**by**

**Hung-chang Kuan, B.A.; M.A.**

**Dissertation**

Presented to the Faculty of the Graduate School of

The University of Texas at Austin

in Partial Fulfillment

of the Requirements

for the Degree of

**Doctor of Philosophy**

**The University of Texas at Austin**

**August 2007**

*To my dearest wife, Vivienne Fang-ju Lin*

## **Acknowledgements**

I would not have been able to finish this dissertation without the help of many people. My deep gratitude first goes to my dissertation committee members. My co-supervisor, Tse-min Lin, carefully guided my writing, statistical analyses, and arguments with his patience and demanding criterion. Peter Trubowitz, my other co-supervisor, brainstormed with me on my original research ideas and helped me develop the whole dissertation project from scratch. Mel Hinich has supported me throughout my writing process. Patrick McDonald helped me locate my research questions and improved the dissertation with his painstaking comments and suggestions. Jih-wen Lin provided me with his insights every time I discussed my research with him.

My thanks also go to my other professors and friends in both Taiwan and the United States. Yun-han Chu and Yu-shan Wu gave me their intelligent comments and suggestions on this dissertation project. Te-yu Wang, Yung-ming Hsu, and Shu Keng provided valuable comments on earlier manuscript chapters. Ming-tong Chen, Jung-feng Chang, and Chia-wei Luo shared their observations on cross-Strait relations with me. Chun-chieh Wang offered his professional opinion about compiling the dataset of stock indices. Chih-cheng Meng taught me the important concepts and skills in time-series analysis. Corey Chen assisted me in arranging interviews. Tieh-chih Chang suggested me how to measure Taiwan's state-business relations. Philip Schrodtt, Lauren Prather, Abra Bron, Dennis Hermreck, Joshua S. Goldstein, Jon Pevehouse, and Gary King kindly helped me search and compile event datasets. I would especially like to thank John Freeman and Patrick Brandt, both of whom generously shared their event data with me. The courses of Harrison Wagner, John Higley, Ross Terrill, Catherine Boone, Robert Moser, Brian Roberts, Sumit Ganguly, Alan Kessler, and Tomoharu Nishino provided me

the knowledge and training that I needed for writing this dissertation. Seth McKee, Jeremy Teigen, Amy Risley, Ji-hyang Jang, Jae-sung Ryu, Young-hark Byun, Fred Cady, and Oya Dursun offered me with their friendship and encouragement at various stages of this project. Huo-yan Shyu, Yu-tzung Chang, and Kate Fu were concerned about my dissertation progress all the time.

In addition, I appreciate the financial support I received for my studies and research from the Fulbright program of the Institute of International Education, UT's Government Department, UT's Ward Fellowship, and Academia Sinica. In particular, the Research Center for Humanities and Social Sciences at Academia Sinica supplied me with excellent research space when I conducted my dissertation research in Taiwan.

Finally, I want to thank my family. I thank my parents from the bottom of my heart; I could not achieve any accomplishment without their love, support, and guidance. I am also grateful to my older brother, who took great care of family chores while I studied in the United States. Most importantly, I am indebted to my lovely wife, Fang-ju. Even if we were seven thousands of miles away from each other most of the time during my studies, she shared in my happiness and frustration and always sent me her love and strongest support. She was a stabilizing force for me during my protracted pursuit for my Ph.D. degree. This dissertation is dedicated to her.

-- Eugene Hung-chang Kuan

*Austin; July 3<sup>rd</sup>, 2007*

**Taiwan in Cross-Strait Relations:  
1987- 2004**

Publication No. \_\_\_\_\_

Hung-chang Kuan, Ph.D.

The University of Texas at Austin, 2007

Supervisors: Tse-min Lin and Peter Trubowitz

This dissertation investigates Taiwan's role in the twists and turns in its relationship with China from 1987 to 2004. It employs the methods of both case studies and the VAR (vector autoregression) time-series analysis to assess the impact of the following four factors on Taiwan's actions toward China: (1) the democratic transition in Taiwan, (2) Taiwan's electoral politics, (3) cross-Strait economic exchanges, and (4) U.S. Taiwan Policy. The research conclusions are as follows.

First, President Lee Teng-hui's rational calculation in the late 1980s guided him to launch domestic political reforms while continuing former President Chiang Ching-kuo's liberalization of Taiwan's China policy. Consequently, Taiwan's democratic transition was accompanied by the appearance of a peaceful policy toward China. Second, in order to win votes from the electorate, which increasingly embraced a Taiwanese identity after the mid-1990s, Taiwanese politicians tended to launch aggressive electoral campaigns against China. Accordingly, domestic elections turned out

to be a conducive factor for Taiwan's conflictual actions toward China. Third, politicians' electoral consideration also overrode Taiwanese businessmen's preference for cross-Strait stability. As a result, cross-Strait economic interdependence was unable to restrain Taiwan from taking aggressive policies toward China. Fourth, because Taiwanese politicians tended not to give in to U.S. pressures during Taiwan's elections, the U.S. could not successfully stop Taiwan's provocative actions toward China as elections neared in Taiwan. It was only when Taiwanese leaders sought to strengthen U.S.-Taiwan relations after election seasons ended that the U.S. could induce Taiwan to act cooperatively toward China.



## Table of Contents

Chapter 1	Introduction .....	1
Chapter 2	Data and Methods.....	9
Chapter 3	Explaining the Peaceful China Policy of a Democratizing Taiwan .....	30
Chapter 4	The Impact of Elections on Taiwan's Actions Toward China .....	59
Chapter 5	Cross-Strait Economic Exchanges and Taiwan's Actions Toward China .....	92
Chapter 6	The United States as a Factor in Taiwan's Actions Toward China .....	126
Chapter 7	Conclusion.....	162
Appendix A	The WEIS Codes.....	168
Appendix B	The Goldstein Net-Cooperation Scale.....	171
Appendix C	The VAR Results and the Ratio Tests Results .....	173
	Bibliography .....	177
	Vita.....	190

# **Chapter 1**

## **Introduction**

### **BACKGROUND**

In 1949, the KMT (Kuomintang or Nationalist party) regime moved to Taiwan after losing the civil war with the Chinese Communist Party (CCP). Since then, Taiwan and China have become one of the few pairs of enduring rivals in the world that have existed for more than a half century. For nearly four decades, the relationship between the two countries has been characterized by hostility, military standoff, distrust, and lack of dialogue. But since 1987 the development of cross-Taiwan Strait relations has witnessed several dramatic twists and turns that involve not just the pair of rivals but also an outside great power, the United States.

In November 1987, the Taiwanese government announced that it would allow its citizens to visit their relatives in China. The years following the announcement were marked by a series of measures that illustrated the liberalization of Taiwan's China policy. Since then the exchanges of people, goods, and capital, across the Taiwan Strait continued to gradually increase. The cold war between the two countries had been replaced by détente.<sup>1</sup> However, in mid 1995 the détente came to an end when Taiwan's President Lee Teng-hui visited the U.S., prompting aggressive reaction by China which conducted missile tests near Taiwan. This incident damaged the Taiwan-China

---

<sup>1</sup> Since the mid-1960s cross-Strait relations had entered into a cold-war period in which the two sides' standoff continued without any artillery fights and air/sea skirmishes, such as those occurred during the 1950s and early 1960s.

relationship and began a string of tense events during the period from mid 1995 through 2004, which were never before seen during the past three decades.

During this tumultuous period, with hostilities escalating across the Taiwan Strait, the United States' involvement in Taiwan-China relations also increased. For instance, in 1996 President Clinton ordered two carrier battle groups to deploy around the Taiwan Strait during China's missile tests near Taiwan. Then in 1998, Clinton announced the "Three No's" when visiting Shanghai, which curbed U.S. support for Taiwan. Later in 2001, President George W. Bush said the U.S. would do what was necessary to defend Taiwan from China. Bush backed up his commitment by granting a large arms-sale package to Taiwan. However, in 2003, to stop Taiwan from changing the status quo across the Strait, Bush expressed his opposition to the referendum agenda promoted by Taiwan's President Chen Shui-bian.

This dissertation is aimed at investigating Taiwan's role in these twists and turns of its relations with China from 1987 to 2004. The main research question I propose is: What explains Taiwan's friendly policies as well as confrontational postures toward China during this period of time? In order to answer this question more specifically, I plan to assess the impact of the following factors on Taiwan's China policy: (1) political development in Taiwan; (2) cross-Strait economic exchanges; and (3) U.S. policy or actions toward Taiwan. These factors are directly related to the development of the Taiwan-China relations since the late 1980s.

Domestically, while cross-Strait relations started to unfold in 1987, Taiwan was also about to undergo the transition into democracy. In the dyadic interactions, economic exchanges, such as trade and mainland investment, had become a major component of cross-Strait relations since the late 1980s. Internationally, the United States started to involve itself deeply in cross-Strait issues in the 1990s. Therefore, studying the effects of

these factors helps develop a better understanding of the formation and changes of Taiwan's China policy.

Undoubtedly Taiwan, China and the U.S. are all accountable for the changes in cross-Strait relations during this period. That said, I contend that Taiwan deserves more attention because in most cases it was Taiwan that initiated critical changes in cross-Strait relations. For example, in 1987 Taiwan started to liberalize cross-Strait exchanges, which contributed to détente between Taiwan and China. Later, it was President Lee's 1995 trip to the U.S. that rekindled hostility with China. Therefore, determining the factors that led to the behavior exhibited by Taiwan in its relationship with China merits scholarly attention.

## **QUESTIONS AND DEBATES**

Based on the research topics I have mentioned, I will address the following four groups of questions in this dissertation: (1) Why was the launch of political reform in Taiwan accompanied by the emergence of a peaceful China policy? (2) What effects did elections have? Did they increase or decrease the probability that Taiwan would take provocative action toward China? Why? (3) The liberalists claim interstate commerce can lead to peace among nations. Did cross-Strait economic exchanges stop Taiwan from initiating confrontational actions against China? If not, why not? (4) As a third party, what effects did the United States have on Taiwan's actions toward China? Did America's policy toward Taiwan effectively constrain Taiwan's provocative actions? Why or why not?

The above questions are significant in that they are grounded in four prominent debates in IR theories; therefore, by answering those questions this research would contribute to the four theoretical debates with the insights that are gleaned from Taiwan's

experiences. Before these debates are discussed in detail in the following chapters, I will offer a simple introduction to each of them.

(1) Whether or not a democratizing state is more war-prone. Mansfield and Snyder argue in their pioneering study (1995) that democratizing states are more likely to fight wars than are mature democracies or stable autocracies. Several other studies challenge their argument by claiming that the foreign policy of a democratizing country can still be peace-oriented (e.g. Lebow 1995; Malcolm and Pravda 1996; McFaul 1997-1998).

(2) Whether or not candidates' foreign policy will become more aggressive when campaigning in elections. Some scholars argue that in a democratic country politicians' foreign policy would turn conciliatory on the eve of elections (e.g. Gaubatz 1991; Lake 1992), while others assert that politicians are likely to launch aggressive policies when elections approach (e.g. Nincic 1990; Smith 1996, 1998a, 1998b; Wu 2000a; Lin 2004).

(3) Whether or not economic exchanges can cause peace between nations. One school of thought in the IR literature argues that economic exchanges between states would contribute to interstate peace (e.g. Polachek 1980; Oneal and Russett 1997, 1999; Gartzke, Li, and Boehmer 2001; Gartzke and Li 2003), but other scholars disagree that there is any causal link between interstate commerce and peace (e.g. Gowa and Mansfield 1993; Barbieri 1996).

(4) Whether or not a third party or outside power can effectively manage a regional conflict. Some scholars suggest that a third party could contribute to the resolution of a regional conflict (e.g. Fearon 1993: 3; Wagner 1999: 13- 14; Walter 2002), while others mention a third party is likely to deepen or prolong such conflicts (Goldstein and Pevehouse 1997; Pevehouse and Goldstein 1999a, 1999b; Goldstein et al. 2001; Woodward 1995; Ciment 1997).

## THEORETICAL APPROACH

The research in this dissertation applies an approach that focuses on domestic politics of international relations. The study of international relations has long been dominated by the paradigm of realism. A defining feature of realism is that it generally attributes state behaviors to international constraints and opportunities, or more specifically, the systemic factors such as the distribution of power between states or in the international system (Trubowitz, Goldman, and Rhodes 1998: 4; Levy 1998: 146). For example, in his seminal work *Theory of International Politics* the founding father of structural realism Kenneth Waltz argues that state behaviors are dictated by the structure of the international system that includes anarchy and the distribution of capabilities across states (1979: chapter 5). However, since states that face similar international environments can still act in very different ways, many scholars have pointed out the insufficiency of realist explanations that only emphasize systemic characters. Instead, some of scholars offer a framework of two-level games to explain how decision makers make policies by balancing themselves between domestic constraints and international pressures (e.g. Putnam 1988; Evans, Jacobson, and Putnam 1993).<sup>2</sup> Still others redirect their endeavor onto the role that domestic politics play and study how domestic institutions, interests, ideas or information have shaped policy making in the areas of national security and foreign economic relations (e.g. Keohane and Milner 1996; Milner

---

<sup>2</sup> In Putnam's work the idea of two-level games is "a metaphor for domestic-international interactions" (1988: 433). Putnam uses international negotiations as an example: a two-level game is just like a situation that a national leader faces when engaging in an international negotiation. That is, because the leader would confront pressures from both domestic groups and foreign countries when negotiating an international agreement, he or she is involved in both a domestic game and an international game at the same time. The point for the national leader is how he/she should make a decision to satisfy both domestic demands and international expectations so that he/she will not be evicted from his seat. Thus, the two-level game is an approach that focuses on how politicians in a country balance between domestic pressures and international constraints.

1997; Trubowitz 1998; Trubowitz, Goldman, and Rhodes 1998; Snyder 1993; Christensen 1996; Zakaria 1998).

My dissertation will continue this effort by explaining Taiwan's actions toward China from the perspective of Taiwan's domestic politics. Based on the self-interest assumption of the rational choice school, it argues that the reason why Taiwan brought its China policy onto a peaceful track in the late 1980s but then let it derail in the mid-1990s could be understood from the following fact: Taiwanese politicians regarded their domestic political interests as the primary consideration during and after Taiwan's democratic transition. For instance, on the eve of the KMT breakdown as an authoritarian regime, Lee Teng-hui chose to initiate more political reforms while continuing Chiang Ching-kuo's conciliatory China policy shortly after he took over the presidency. He did this because it would help him secure his power. Later, as Taiwan's democratic transition came to a close and elections turned into an institutionalized mechanism for domestic political competition, politicians or political parties tended to launch aggressive campaigns highlighting Taiwan's independent status when elections neared. This is because they believed these campaigns would help them win elections by maximizing votes, particularly when more and more Taiwanese voters started to feel a Taiwanese identity. Meanwhile, Taiwanese leaders' pursuit of electoral interests had also overwhelmed the business community's policy preferences as well as the United States' expectation about a stable Taiwan Strait, thus rendering cross-Strait commerce and U.S. Taiwan policy unsuccessful in maintaining a peaceful cross-Strait relationship.

## **IMPLICATIONS**

This dissertation is significant in both practical and academic terms. Practically, the Taiwan Strait has become a critical area whose instability is likely to affect the other parts of the world. As East Asian security specialist Robert Ross has said, the Taiwan

Strait is one of the flash points in East Asia where a regional conflict is likely to burst out (Ross 1999). In particular, China has continued to increase the number of missiles aimed at Taiwan, while rising Taiwanese nationalism as well as potential separatism in Taiwan are also challenging Chinese leaders' patience. If a military conflict between Taiwan and China eventually occurs, the consequences will involve not just the high costs of human lives and resources in both countries but also a possible super-power military confrontation between the U.S. and China, just like what almost happened in March 1996. Moreover, the political and economic stability of East Asia or even the whole world might also be jeopardized by a cross-Strait war. These negative effects are serious enough to make not only policy makers but also scholars around the world pay more attention to studying both cross-Strait relations as well as the factors associated with cross-Strait peace and conflict.

This dissertation has academic significance as well. Because the development of cross-Strait relations after the initiation of cross-Strait exchange is relatively recent, the scholarly research on it is correspondingly limited in the field of political science. In addition, it is common that people who study Taiwan-China relations only pay attention to policies or detailed descriptions of events. Consequently, theoretical accounts of cross-Strait relations are rare. But for political scientists the relationship across the Taiwan Strait provides very rich research materials. For example, the interactions that exist between domestic politics and foreign (cross-Strait) policies, between cross-Strait economic relations and political relations, between Taiwan, China and the United States are all good cases against which several IR theories can be tested. As such, since the late 1990s scholars in Taiwan have started to apply some newly-developed political science theories to research the relationship between Taiwan and China.<sup>3</sup> This dissertation is just

---

<sup>3</sup> For example, see Bau and Wu 1999; Wu 2000b.



an attempt to continue and contribute to this ongoing effort of theorizing cross-Strait relations. More specifically, this research does not aim to build any new political science theories. Instead, it tries to understand cross-Strait relations from the perspectives of theoretical frameworks and then offer explanations that are built upon the literature's insights. By grounding the research questions in the four prominent theoretical debates, it seeks to find out whether or not the experiences of Taiwan-China relations support any theory in the debates and explain why.

#### **ORGANIZATION OF THE DISSERTATION**

This dissertation is organized as follows. Chapter 2 introduces the research methods and data that I will apply. Chapter 3 explains why Taiwan took a peaceful approach in its China policy during most of the period of democratic transition. Chapter 4 discusses how elections contributed to the appearance of Taiwan's conflictual actions against China. Chapter 5 examines whether or not cross-Strait economic exchanges affected Taiwan's actions toward China. Chapter 6 investigates how the United States' policy toward Taiwan influenced Taiwan's actions toward China. In Chapter 7, I present my conclusions.

## **Chapter 2**

### **Data and Methods**

#### **INTRODUCTION**

In this dissertation I will apply both case studies and statistical analysis as the main research methods. Case studies are in-depth studies of why and how an event (i.e. case) occurs. Since this dissertation is an empirical study that researches the empirical experiences or phenomena about Taiwan's China policy, cases will be useful in providing related factual information as well as exemplifying and supporting my arguments. The choice of cases in this project will depend on the research topic in each relevant chapter, so I will just explain each in their respective chapters. As for the materials about the cases, they come mainly from news articles from Taiwan's major local newspapers (i.e. *China Times* and *United Daily News*). In addition, I also conducted interviews with some Taiwanese scholars, journalists, and former officials in the summer of 2005 for supplementary information.

Statistical analysis is widely used in empirical research as a source of evidence because it tends to demonstrate specific behavior patterns that exist among a large number of samples. The major statistical method I am going to employ is the VAR (vector autoregression) time-series analysis (Freeman, Williams, and Lin 1989). Since VAR is a relatively uncommon approach in political science research, the rest of this chapter will focus on introducing this method, some other relevant tests, and the data that will be used in the analysis. I will start with the sources and measurement of the data. Then I will give an introduction to the VAR model and the model's application in the

studies of international relations. In the third section I discuss the stationarity tests for the data series. The last two sections are the model's specification and estimation.

## **DATA SOURCES AND MEASUREMENT**

The dataset for the VAR analysis in this project is composed of the variables of state actions, elections, the market related to cross-Strait commerce, and the TAIEX (the index of Taiwan's stock market). It covers two different periods of analysis.

### ***State Actions***

The first part is the VRA event dataset that includes the dyadic actions between Taiwan, China and the United States during the period from 1990 to 2004. This dataset is built with the VRA Reader program, a software tool developed by Virtual Research Associates, Inc. (VRA) to parse Reuters's news reports on events of state actions.<sup>4</sup> The events parsed through the VRA Reader will then be processed using two steps.

First, because state actions range from verbal actions such as making policy announcements to physical actions like leaders' visits to other countries, the events will be categorized into various state actions by coding with the IDEA (Integrated Data for Events Analysis) protocol that includes all WEIS (World Event Interaction Survey, see McClelland 1978) scheme and some other supplementary codes. For examples of the WEIS codes, see Appendix A.

Second, since these state actions can also be friendly or hostile, the Goldstein net-cooperation scale (Goldstein 1992: 376- 377) is used to convert the IDEA codes that are attached to the various state actions. As Appendix B shows, the Goldstein scale assigns a

---

<sup>4</sup> The author thanks Dr. Patrick Brandt of the University of Texas at Dallas and Dr. John R. Freeman of the University of Minnesota for kindly offering the Goldstein-format VRA dataset on the part of Taiwan-China-U.S. relations. The original raw VRA dataset (which includes all events for 1990-2004 for the entire world) is available on Gary King's website (<http://gking.harvard.edu/events/>). For an introduction to and evaluation of the VRA dataset, see King and Lowe (2003).

weighting of cooperation (above zero) or conflict (below zero) to each IDEA event code. Therefore, each state action has a value of cooperation (which is positive) or conflict (which is negative). For the actions of state A toward state B within a specific period of time (a day, a week, or a month, etc.), this value is “the sum of all A’s weighted cooperative actions toward B in that period” minus “the sum of all A’s weighted conflictual actions toward B in the same period.” This turns out to be A’s “net cooperation” toward B in the period. If A’s net cooperation is *positive*, it means for that period of time A’s actions are generally *cooperative* or friendly toward B. On the other hand, A’s negative net cooperation means its actions are generally confrontational or hostile toward B during the time. In order to catch the quick-changing dynamics of states’ actions, I use a “day” as the unit of analysis. Thus, the event data used in this project are state actions’ *daily* “net cooperation” time-series.

In this project I assume that the actions of Taiwan directed toward China were not only closely related to China’s actions against Taiwan but also associated with Taiwan’s interaction with the United States, as well as the interaction between China and the U.S. Accordingly, I will include the following six state-action variables into the VAR model: *TC* (meaning Taiwan’s “net cooperation” toward China), *CT* (China’s “net cooperation” toward Taiwan), *UC* (U.S. “net cooperation” toward China), *CU* (China’s “net cooperation” toward the U.S.), *UT* (U.S. “net cooperation” toward Taiwan), and *TU* (Taiwan’s “net cooperation” toward the U.S.).

### ***Elections***

In order to see whether or not Taiwan’s actions against China turned more aggressive when elections drew closer, I will include two election variables, *presidential election* and *parliamentary election* (the Legislative Yuan elections and the National Assembly elections), into the model. To gauge the effect of an *approaching* election,

each of the variables is measured by *the number of days to the next (same) election*.<sup>5</sup> That is, the closer an election is, the smaller this variable's value will be.

Note that in my model *presidential election* refers to the direct presidential elections that were held in 1996, 2000 and 2004. On the other hand, *parliamentary election* includes the 1991 National Assembly election and the Legislative Yuan elections that were held in 1992, 1995, 1998, 2001 and 2004. I did not include the other National Assembly election since it was held on the same day as the first direct presidential election in 1996 and consequently its analytical significance was overwhelmed by the presidential election.<sup>6</sup>

### ***Market of Cross-Strait Commerce***

I will also add a variable *China Stocks* that represents the market factor of cross-Strait commerce into the model. "China stocks" (or "China-concept stocks") is a term that generally refers to the stocks of Taiwan's locally listed firms that heavily invest in China. The research that studies the relationship between conflicts and interdependence usually uses trade as the variable of interdependence. But due to the lack of daily data about cross-Strait trade or mainland investment,<sup>7</sup> I had to locate another variable that carries daily market information about cross-Strait commerce to match other daily-based variables in the VAR model. The only such data I found was the stock prices of the Taiwanese listed firms that have invested a substantial amount of money in China.

This *China Stocks* variable is the daily change of a stock index that was calculated by the TEJ (Taiwan Economic Journal, a private stock research company in Taiwan). In order to avoid the unit-root problem in the VAR analysis, I use the index's daily change,

---

<sup>5</sup> The author thanks Jih-wen Lin for suggesting this measurement of elections.

<sup>6</sup> The 1996 National Assembly election was also the last regular election for the National Assembly members.

<sup>7</sup> In official records, trade and investment data are usually compiled on a monthly basis.

i.e. its differenced series, as the *China Stocks* variable. This index is based on the stock prices of those Taiwanese listed firms whose cumulated investment amount in China in one specific year was among the top 30 firms. I ranked all the Taiwanese listed firms according to their individual accumulated mainland investment amount to determine these top 30 firms.<sup>8</sup> “Accumulated amount” means the total amount a listed firm has invested in China from the first year it started to invest to the year when it was ranked.<sup>9</sup> The calculation of the index was conducted in the same way that the TAIEX index is calculated.

Lin and Roberts (2007: 147) have said, “Financial market participants daily make fine-tuned, firm-specific investment decisions by drawing on a wide range of information, including relevant changes in the political environment. As a part of this investment calculus, market participants must judge for any firm the relevance of any given political event to the firm’s prospective fortunes.” The top 30 mainland investment listed firms mean that these firms are more deeply engaged in cross-Straits commercial activities, investment and trade as well, than other listed firms.<sup>10</sup> Therefore, the index made up of their stock prices would have the following implications.

First, it is the aggregate evaluation of financial market participants on the top 30 firms’ profitability in China. So, if the economic exchange between Taiwan and China has been occurring in a market of cross-Straits commerce, then this index would stand for

---

<sup>8</sup> The data of each listed firm’s yearly mainland investment amounts are provided by Taiwan’s Ministry of Economic Affairs. I sum up each firm’s yearly amounts to get the firm’s cumulated amount in one specific year.

<sup>9</sup> The Taiwan government did not permit mainland investment until 1991. So, only 2 listed firms invested in China in 1991 (the same two firms were also picked up in 1990 when calculating the index); and 12 in 1992. The number of these listed firms passed 30 in 1993.

<sup>10</sup> One notable fact regarding cross-Straits economic activities is the close link between trade and Taiwanese investment in China. As Tung says, Taiwan-invested enterprises in mainland China play a major role in importing materials, machinery, parts, semi-manufactured goods and capital goods from Taiwan. “In the mid-1990s, around one-third to two-thirds of Taiwan’s exports to China were driven by these Taiwan-invested enterprises.” (2003: 6)

the financial market's overall assessment against this market of cross-Strait commerce. Second, because the index represents the financial market's overall assessment against the market of cross-Strait commerce, unlike trade amount or investment amount, it would reflect the qualitative (or non-quantitative) side of cross-Strait commerce. This is just like an overall stock index in a country, which tends to reflect (the market participants' evaluation of) the quality of that country's economy. As a matter of fact, since the assessment of financial markets against cross-Strait commerce would be based on lots of information that includes trade and investment, this index has already taken care of the quantitative side of cross-Strait economic exchanges. Third, just like other financial markets in the world, the financial market participants' evaluation of the top 30 firms' profitability in China also tended to be sensitive to political events, particularly those associated with cross-Strait relations. Thus, this index can appropriately measure the market participants' overall preference about any political event in Taiwan-China relations.

### ***TAIEX***

The daily changes of the TAIEX will also be included in the VAR model. This is because the variable of *China Stocks* is closely related to the TAIEX. More accurately, the TAIEX is made of the stock prices that include those of each year's top 30 listed firms. In this case, the two variables are highly correlated.<sup>11</sup> Thus, adding the variable of TAIEX will avoid the under-specification of the VAR model, particularly when *China Stocks* is also the dependent variable of one of the model's equations. The TAIEX data is available from the website of the Taiwan Stock Exchange Corporation (TSEC).<sup>12</sup> To

---

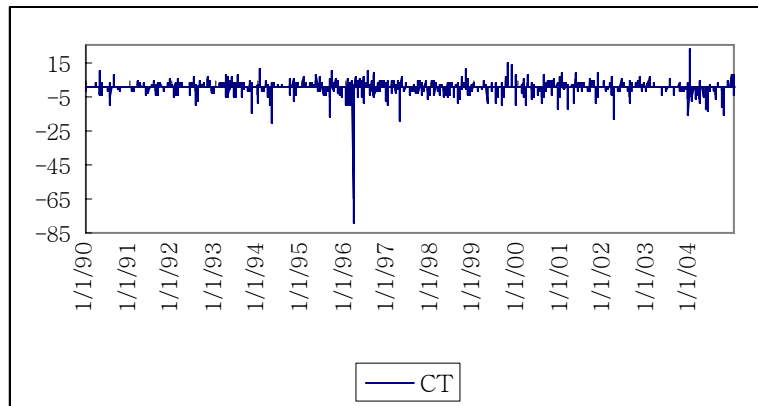
<sup>11</sup> According to the author's analysis, the Pearson correlation between the two variables is 0.844.

<sup>12</sup> The website of TSEC is [www.tse.com.tw](http://www.tse.com.tw).

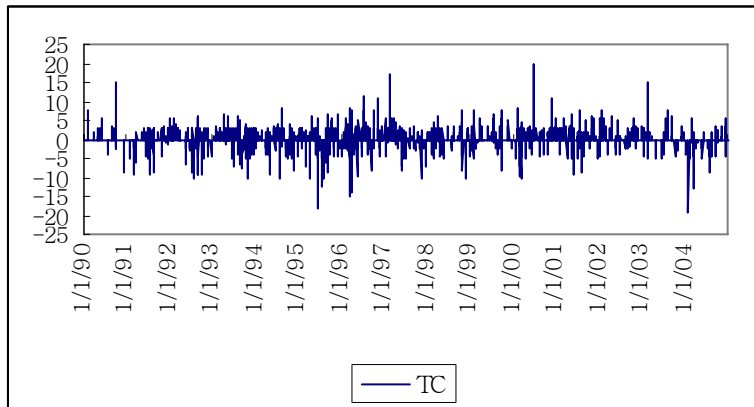
avoid the unit-root problem in VAR analysis, this *TAIEX* variable will be the daily changes (i.e. the differenced series) of the TAIEX index.

Figures 2-1 to 2-10 are the time series plots of the above variables.

**Figure 2-1.** Net Cooperation in China's Actions Toward Taiwan

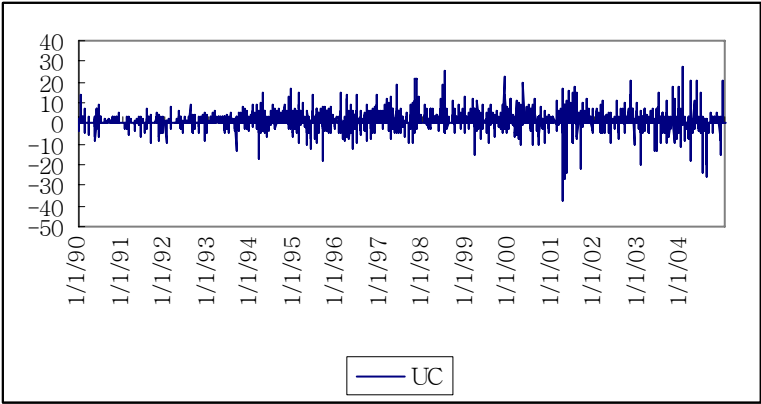


**Figure 2-2.** Net Cooperation in Taiwan's Actions Toward China

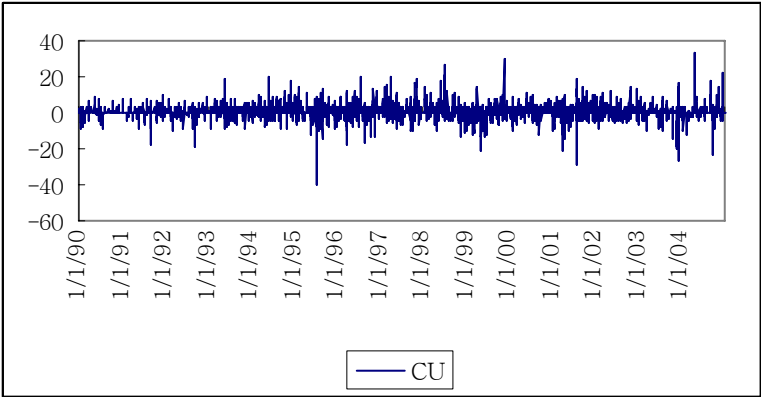




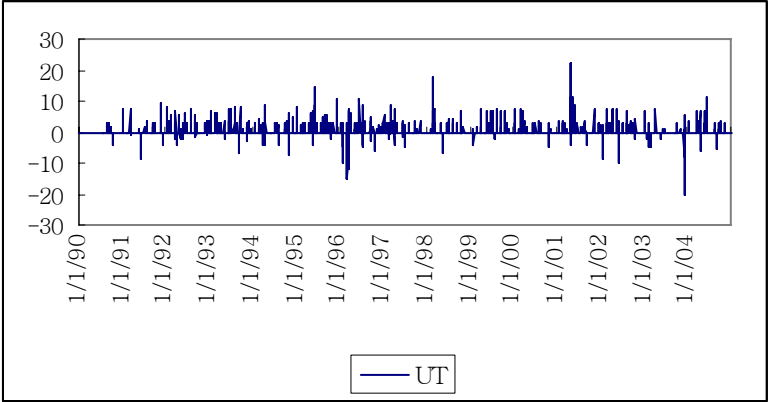
**Figure 2-3.** Net Cooperation in U.S. Actions Toward China



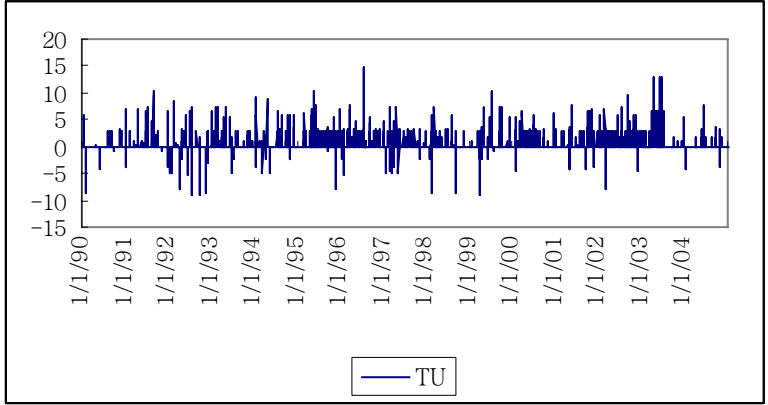
**Figure 2-4.** Net Cooperation in China's Actions Toward the U.S.



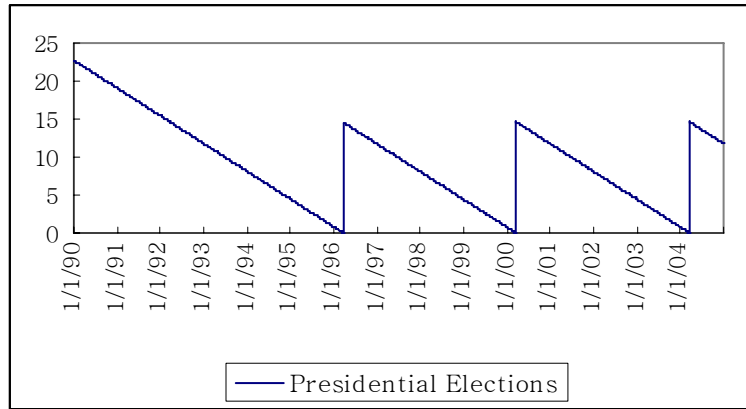
**Figure 2-5.** Net Cooperation in U.S. Actions Toward Taiwan



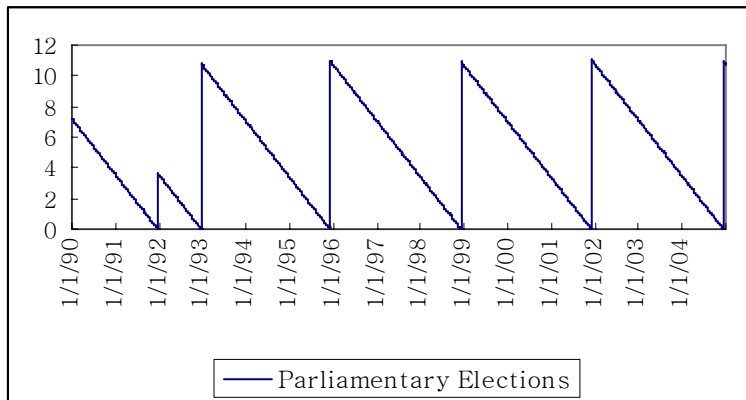
**Figure 2-6.** Net Cooperation in Taiwan's Actions Toward the U.S.



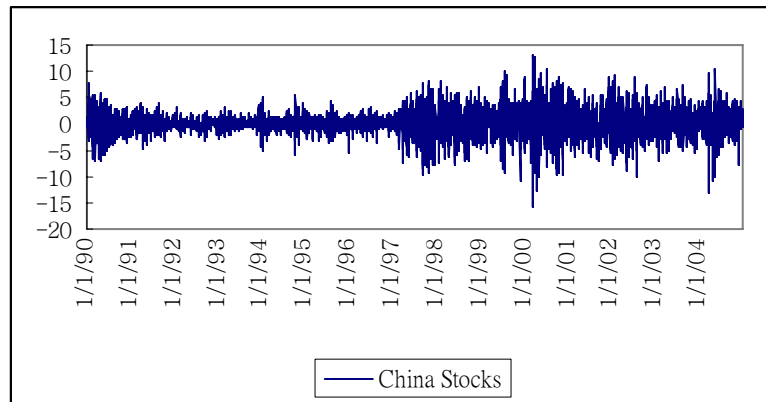
**Figure 2-7.** Taiwan's Presidential Elections (Unit: 100 days)



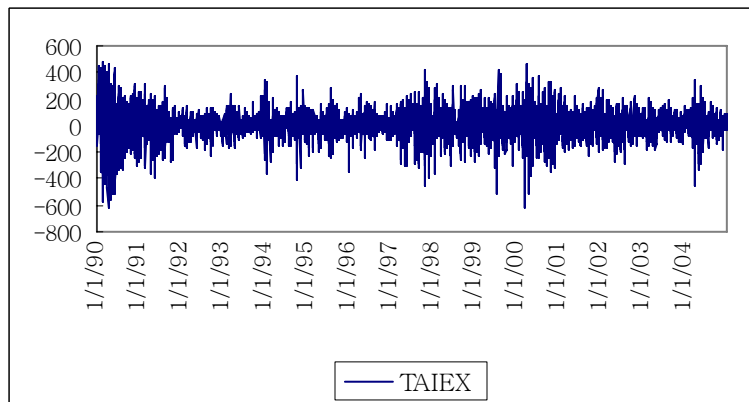
**Figure 2-8.** Taiwan's Parliamentary Elections (Unit: 100 days)



**Figure 2-9.** Differenced Series of the “China Concept Stocks” Index



**Figure 2-10.** Differenced Series of the TAIEX



### ***Periods of Analysis***

Since the period covered in this dataset is from 1990 to 2004, I had to limit my time-series analysis to this span of time rather than trace it back to 1987 when cross-Strait contacts began. In addition, the analysis will be applied to two different sub-periods of time. The first period is from January 1, 1990 to June 30, 1995. This is the period of détente between Taiwan and China because the exchanges across the Strait were friendly and no significant event damaged this atmosphere of détente. The second period is from July 1, 1995 to December 31, 2004, during which time the two countries' bilateral relations were marked by tension and conflict after President Lee Teng-hui visited the U.S. in June 1995. I will discuss more about the division into these two sub-periods in Chapter 3.

### **VECTOR AUTOREGRESSION**

#### ***A Model of Reciprocity in International Relations***

State actions constitute the basic unit of analysis in international relations. For students of international relations, the most complex part about state actions is to determine the sources of their appearance. Generally speaking, an action of a country can be the result of the country's own past behaviors. It can also be affected by the past behaviors of another country. Sometimes the past behaviors of a third country can exercise influence too. Therefore, it is important to choose an appropriate analytical tool when searching for the source of state actions. For the following two reasons, I pick up the VAR time-series analysis as the major analytical tool in this dissertation.

First, a time-series analysis takes into account the variables' values at various points of time. Thus, when being applied to the study of state interactions, this analysis would possess more potential to catch the temporal dynamics of state actions. Second,

instead of omitting some variables, a VAR model would equally consider all the variables that are causally connected to each other. That is, these variables are endogenous rather than exogenous ones in a VAR model. Therefore, when modeling interstate actions, any actions that are directed by one country toward another would never be left out of the model. This analytical feature is critical for studies of state interactions because, among a group of countries which interact closely with each other, the actions of any country tend to be inter-causally connected with other countries' behaviors.

Some scholars have already applied the VAR model to the studies of international relations. For example, Goldstein and Freeman (1990) trace the interactions between China, the United States, and the Soviet Union during the Cold War period to see if any *reciprocity* occurred in any dyad among the three powers. This pioneering effort is then followed by Goldstein and Pevehouse (1997), Pevehouse and Goldstein (1999b), and Goldstein et al. (2001), which analyze the conflicts in Bosnia and Kosovo in the 1990s and the interstate relations in the Middle East during the 1980s and 1990s. Without a doubt, the VAR model is also appropriate for the analysis of Taiwan's actions toward China, which involves not just the interaction between Taiwan and China but also the two countries' respective interaction with the United States.

Then, what is a VAR model? A VAR model is a system of independent equations. When modeling interstate actions, each equation in the VAR model has a dependent variable that represents one country's actions toward another country. Moreover, all equations share the same right side independent variables. These independent variables usually consist of recent past actions (i.e. lags) of all *endogenous* variables. Sometimes we can add *exogenous* variables into the independent variables too, although their lags are not necessarily included. In addition, a constant and an error term will also be put on the right side of each equation.

As Freeman, Williams, and Lin mention, one specific feature about the VAR model is that hypothesis tests are not based on the significance levels of individual coefficients but on the *joint* statistical significance of single variables or blocks of variables. For this purpose, the block  $F$  tests are used to assess the joint significance. Moreover, a certain form of dynamic analysis, “innovation accounting,” or impulse response function, is sometimes employed to estimate how the VAR system would respond to a shock coming from one of the variables (1989: 845- 847). I will further discuss the block  $F$  tests and the impulse response function in the section on model estimation.

### ***Endogenous Variables and Stationarity Tests***

One necessary condition for a time-series analysis to get unbiased estimates is that the data series being analyzed should be stationary. In other words, the series’ “mean, variance, and autocovariance (at various lags) should remain the same no matter what point we measure them; that is, they are time invariant” (Gujarati 2002: 798). As Gujarati explains:

Why are stationary time series so important? Because if a time series is nonstationary, we can study its behavior only for the time period under consideration. Each set of time series data will therefore be for a particular episode. As a consequence, it is not possible to generalize it to other time periods. Therefore, for the purpose of forecasting, such (nonstationary) time series may be of little practical value. (2002: 798)

Hence, it is required that people test the stationarity of the data series before conducting any time-series analysis, including the VAR analysis.

In my VAR model, I test the stationarity of the series of all *endogenous* variables. They include all six state-action variables ( $TC$ ,  $CT$ ,  $UC$ ,  $CU$ ,  $UT$ , and  $TU$ ) and the differenced series of *China Stocks* and *TAIEX*, the variables of cross-Strait commerce and Taiwan’s stock-market. I treat these variables as endogenous because I assume they are

inter-causally connected with each other. That is, I assume that the variables of both cross-Strait commerce and Taiwan's stock market are not just connected to each other but also to those state-action variables since economic activities can easily be affected by international events. In addition, I assume each state-action variable is potentially related to some other state-action variables, just as the works of Goldstein and Freeman (1990) and Goldstein and Pevehouse (1997) assume. I make this assumption because the interactions between Taiwan and China (i.e. *TC*, *CT*) could not be fully understood without considering the United States' actions toward both Taiwan and China (i.e. *UC*, *UT*) and the two countries' actions toward the U.S. (i.e. *CU* and *TU*). Moreover, I also assume that state actions are likely to be affected by the variables of cross-Strait commerce and Taiwan's stock-market. For example, it is possible that Taiwan's leaders would consider cross-Strait commerce or the island's domestic economic performance, which tends to be reflected by the stock market, before they took action toward China.

The test for stationarity can be done with the approaches of graphical analysis and the unit-root test (Gujarati 2002: 807; 814- 820). As Figures 2-1 to 2-10 show, except for the election variables,<sup>13</sup> the figures of each endogenous variable's time series generally indicate that over the years the variables' values have not been increasing or decreasing. That is, they show no upward or downward trends. This suggests that the means of these variables have possibly been unchanging, which implies the variables are probably stationary. In order to see if this conclusion is correct, I also conduct the unit-root tests that include both the augmented Dickey-Fuller (ADF) test and the Phillips-Perron (PP) test. Table 2-1 displays the results of these tests. The results confirm that, excluding the election variables, the series of each variable are stationary for both periods of time.

---

<sup>13</sup> The way the election variables are created will make them nonstationary. This is fine since they will not be treated as endogenous variables in the VAR model.



**Table 2-1. Results of the Unit Root Tests**

	<b>1/1/1990- 6/30/1995</b>		<b>7/1/1995- 12/31/2004</b>	
Variable Series	ADF test	PP test	ADF test	PP test
<i>CT</i>	-10.359***	-43.745***	-8.702***	-52.359***
<i>TC</i>	-10.672***	-44.799***	-9.316***	-58.140***
<i>CU</i>	-9.259***	-41.450***	-8.859***	-53.397***
<i>UC</i>	-8.711***	-42.183***	-8.832***	-53.342***
<i>TU</i>	-9.239***	-41.336***	-8.876***	-58.592***
<i>UT</i>	-10.120***	-40.729***	-8.881***	-56.866***
<i>TAIEX</i>	-10.249***	-41.849***	-10.358***	-57.986***
<i>China Stocks</i>	-11.263***	-44.580***	-10.394***	-57.709***

Note: 1. The tests are conducted with STATA, 8<sup>th</sup> edition. Both ADF and PP tests show the test statistics of  $Z(t)$ . 2. The lag length for the 1<sup>st</sup> period of time is 15, the 2<sup>nd</sup> period of time is 30. 3. \*\*\*  $p < .001$

### ***Model Specification***

As mentioned earlier, in a VAR model each equation shares the same right side independent variables. These independent variables are mainly composed of recent past actions (i.e. lags) of all endogenous variables, but sometimes some exogenous variables will be included too. In my VAR model there are eight equations, with each equation's independent variables including the eight endogenous variables that I mentioned above. In addition, I also add two exogenous variables, that is, the two election variables, into the independent variables. I treat the election variables as exogenous because, as I mentioned earlier, they are measured by the number of days to the next (same) election.

By measuring this way, the variation pattern of the variables' values is fixed and can hardly be affected by other endogenous variables.

The VAR model that I construct is as follows. In each equation,  $\alpha_i$  is the constant,  $\varepsilon_i$  is the error term, and  $k$  is the number of lagged terms.

$$\begin{aligned}
TC_t = & \alpha_1 + TC_{t-1} + TC_{t-2} + \dots + TC_{t-k} + CT_{t-1} + CT_{t-2} + \dots + CT_{t-k} \\
& + UC_{t-1} + UC_{t-2} + \dots + UC_{t-k} + CU_{t-1} + CU_{t-2} + \dots + CU_{t-k} \\
& + UT_{t-1} + UT_{t-2} + \dots + UT_{t-k} + TU_{t-1} + TU_{t-2} + \dots + TU_{t-k} \\
& + TAIEX_{t-1} + TAIEX_{t-2} + \dots + TAIEX_{t-k} \\
& + China\ Stocks_{t-1} + China\ Stocks_{t-2} + \dots + China\ Stocks_{t-k} \\
& + presidential\ election + parliamentary\ election + \varepsilon_1 \quad (1)
\end{aligned}$$

$$\begin{aligned}
CT_t = & \alpha_2 + TC_{t-1} + TC_{t-2} + \dots + TC_{t-k} + CT_{t-1} + CT_{t-2} + \dots + CT_{t-k} \\
& + UC_{t-1} + UC_{t-2} + \dots + UC_{t-k} + CU_{t-1} + CU_{t-2} + \dots + CU_{t-k} \\
& + UT_{t-1} + UT_{t-2} + \dots + UT_{t-k} + TU_{t-1} + TU_{t-2} + \dots + TU_{t-k} \\
& + TAIEX_{t-1} + TAIEX_{t-2} + \dots + TAIEX_{t-k} \\
& + China\ Stocks_{t-1} + China\ Stocks_{t-2} + \dots + China\ Stocks_{t-k} \\
& + presidential\ election + parliamentary\ election + \varepsilon_2 \quad (2)
\end{aligned}$$

$$\begin{aligned}
UC_t = & \alpha_3 + TC_{t-1} + TC_{t-2} + \dots + TC_{t-k} + CT_{t-1} + CT_{t-2} + \dots + CT_{t-k} \\
& + UC_{t-1} + UC_{t-2} + \dots + UC_{t-k} + CU_{t-1} + CU_{t-2} + \dots + CU_{t-k} \\
& + UT_{t-1} + UT_{t-2} + \dots + UT_{t-k} + TU_{t-1} + TU_{t-2} + \dots + TU_{t-k} \\
& + TAIEX_{t-1} + TAIEX_{t-2} + \dots + TAIEX_{t-k} \\
& + China\ Stocks_{t-1} + China\ Stocks_{t-2} + \dots + China\ Stocks_{t-k} \\
& + presidential\ election + parliamentary\ election + \varepsilon_3 \quad (3)
\end{aligned}$$

$$\begin{aligned}
CU_t = & \alpha_4 + TC_{t-1} + TC_{t-2} + \dots + TC_{t-k} + CT_{t-1} + CT_{t-2} + \dots + CT_{t-k} \\
& + UC_{t-1} + UC_{t-2} + \dots + UC_{t-k} + CU_{t-1} + CU_{t-2} + \dots + CU_{t-k} \\
& + UT_{t-1} + UT_{t-2} + \dots + UT_{t-k} + TU_{t-1} + TU_{t-2} + \dots + TU_{t-k} \\
& + TAIEX_{t-1} + TAIEX_{t-2} + \dots + TAIEX_{t-k} \\
& + China\ Stocks_{t-1} + China\ Stocks_{t-2} + \dots + China\ Stocks_{t-k} \\
& + presidential\ election + parliamentary\ election + \varepsilon_4 \quad (4)
\end{aligned}$$

$$\begin{aligned}
UT_t = & \alpha_5 + TC_{t-1} + TC_{t-2} + \dots + TC_{t-k} + CT_{t-1} + CT_{t-2} + \dots + CT_{t-k} \\
& + UC_{t-1} + UC_{t-2} + \dots + UC_{t-k} + CU_{t-1} + CU_{t-2} + \dots + CU_{t-k} \\
& + UT_{t-1} + UT_{t-2} + \dots + UT_{t-k} + TU_{t-1} + TU_{t-2} + \dots + TU_{t-k} \\
& + TAIEX_{t-1} + TAIEX_{t-2} + \dots + TAIEX_{t-k} \\
& + China\ Stocks_{t-1} + China\ Stocks_{t-2} + \dots + China\ Stocks_{t-k} \\
& + presidential\ election + parliamentary\ election + \varepsilon_5 \quad (5)
\end{aligned}$$

$$\begin{aligned}
TU_t = & \alpha_6 + TC_{t-1} + TC_{t-2} + \dots + TC_{t-k} + CT_{t-1} + CT_{t-2} + \dots + CT_{t-k} \\
& + UC_{t-1} + UC_{t-2} + \dots + UC_{t-k} + CU_{t-1} + CU_{t-2} + \dots + CU_{t-k} \\
& + UT_{t-1} + UT_{t-2} + \dots + UT_{t-k} + TU_{t-1} + TU_{t-2} + \dots + TU_{t-k} \\
& + TAIEX_{t-1} + TAIEX_{t-2} + \dots + TAIEX_{t-k} \\
& + China\ Stocks_{t-1} + China\ Stocks_{t-2} + \dots + China\ Stocks_{t-k} \\
& + presidential\ election + parliamentary\ election + \varepsilon_6 \quad (6)
\end{aligned}$$

$$\begin{aligned}
TAIEX_t = & \alpha_7 + TC_{t-1} + TC_{t-2} + \dots + TC_{t-k} + CT_{t-1} + CT_{t-2} + \dots + CT_{t-k} \\
& + UC_{t-1} + UC_{t-2} + \dots + UC_{t-k} + CU_{t-1} + CU_{t-2} + \dots + CU_{t-k} \\
& + UT_{t-1} + UT_{t-2} + \dots + UT_{t-k} + TU_{t-1} + TU_{t-2} + \dots + TU_{t-k} \\
& + TAIEX_{t-1} + TAIEX_{t-2} + \dots + TAIEX_{t-k} \\
& + China\ Stocks_{t-1} + China\ Stocks_{t-2} + \dots + China\ Stocks_{t-k} \\
& + presidential\ election + parliamentary\ election + \varepsilon_7 \quad (7)
\end{aligned}$$

$$\begin{aligned}
China\ Stocks_t = & \alpha_8 + TC_{t-1} + TC_{t-2} + \dots + TC_{t-k} + CT_{t-1} + CT_{t-2} + \dots + CT_{t-k} \\
& + UC_{t-1} + UC_{t-2} + \dots + UC_{t-k} + CU_{t-1} + CU_{t-2} + \dots + CU_{t-k} \\
& + UT_{t-1} + UT_{t-2} + \dots + UT_{t-k} + TU_{t-1} + TU_{t-2} + \dots + TU_{t-k} \\
& + TAIEX_{t-1} + TAIEX_{t-2} + \dots + TAIEX_{t-k} \\
& + China\ Stocks_{t-1} + China\ Stocks_{t-2} + \dots + China\ Stocks_{t-k} \\
& + presidential\ election + parliamentary\ election + \varepsilon_8 \quad (8)
\end{aligned}$$

A precise time-series analysis also depends on employing an appropriate number of lagged terms (i.e. the lag length,  $k$ ) in the model. In a time-series equation, the dependent variable at time  $t$  is presumed to be affected by the independent variables at past points of time, from time  $t-1$  to time  $t-k$ . Therefore, it is important to determine the suitable lag length when specifying the time-series model. To determine the appropriate  $k$  for both periods of time, I apply Sims' (1980: 17- 18) modified likelihood ratio tests. These tests are composed of several rounds of tests on different pairs of lag numbers. In each round of test, a lag number will always be larger than the other, with the shorter-lag (restricted) model as the null hypothesis and the longer-lag (unrestricted) model as the alternative hypothesis. I will start with a pair of lag numbers that are both relatively small in the first round of test. If the longer lag is accepted in this round, then I conduct the

second round to test it against another lag number that is larger than it. Usually this step will be repeated for a few rounds until an appropriate lag length is located.

Appendix C's Table C-3 shows the results of these ratio tests. For the first period of time (from January 1, 1990 to June 30, 1995), I start with 10 lags vs. 5 lags. The test results show that the lag length of 10 is accepted, so I test 15 lags vs. 10 lags in the second round and the results show 15 is accepted. Then I test 20 lags vs. 15 lags and it turns out that 20 is rejected. This means 15 is a possible lag-length candidate. So I test 25 vs. 20, 30 vs. 25, 35 vs. 30, and 40 vs. 35, and find that 25, 30, 35, 40 are all rejected. I test 30 vs. 15 and 30 vs. 10 as well, and 30 is rejected in both tests, which leaves 15 and 10 as possible lag lengths. But since the test of 15 vs. 10 accepted 15, 15 will be the most appropriated lag length for this period of time. As for the period from July 1, 1995 to December 31, 2004, at first 15 seems to be a good lag-length candidate too because 10 is accepted in the test of 10 vs. 5 but rejected in the test of 15 vs. 10, and 20 is rejected in the test of 20 vs. 15. But other tests show that a longer lag-length is possible: 25 is accepted in the test of 25 vs. 20, and 30 is accepted in the test of 30 vs. 25. Because 35 is rejected in the test of 35 vs. 30 and 40 rejected in the test of 40 vs. 35, 30 seems to be a suitable lag-length too. So I tested it against 15 and 10, respectively, and it is accepted in both tests. Therefore I decided that 30 is the most appropriate lag-length for this period of time.

### ***Model Estimation***

One thing that is worth noting is the method of determining the significance level of each independent variable. In a VAR model, whether or not independent variables are significant in affecting the dependent variable is judged by the results of the block  $F$  tests (Freeman, Williams, and Lin 1989: 845-846; Pevehouse and Goldstein 1999a: 8). The independent variables in a VAR model may include several lagged terms. In terms of

analytical purposes, for any specific independent variable in the model such as  $TC$ , the significance of every individual lagged term (i.e.  $TC_{t-1}$ ,  $TC_{t-2}$ , or  $TC_{t-k}$ ) is less important than the combined significance of all the lagged terms. Therefore, I have to apply the block  $F$  tests to assess the “joint statistical significance” of all the lagged terms of the variable. By conducting these tests, whether or not the Granger causal power of one (lagged) independent variable is significant on the dependent variable can also be revealed.<sup>14</sup>

One specific feature of the block  $F$  tests is that they can only show the joint significance of a lagged independent variable but not the “joint coefficient.” Therefore, if the research needs to determine how the dependent variable would respond to one particular independent variable, a certain form of dynamic analysis, “innovation accounting,” or impulse response function must be used to see if the dependent variable reacts positively or negatively to that independent variable. In an impulse response function, one variable is “shocked” by another variable’s one-standard-deviation increase in the variance and then reacts with various degrees of intensity, either positive or negative, at different points of time. Generally, the overall direction of its reactions at these points of time could be judged by graphical analysis, while the number of those points of time is the same as that of the lagged terms in the model. Therefore, if a dependent variable’s graphical trace of response is above 0 most of the time, then it means it reacts positively to the independent variable. If the trace is below 0 most of the time, then it means the dependent variable’s response to the independent variable is negative. If the trace of response is above 0 sometimes and below 0 at other times, then it would be difficult to judge the general response direction.

---

<sup>14</sup> As Freeman (1983: 328) quotes Pierce (1977), a variable  $X$  is said to “Granger cause” another variable  $Y$ , if “ $Y$  can be better predicted from the past of  $X$  and  $Y$  together than the past of  $Y$  alone, other relevant information being used in the prediction.”

I present the results of this VAR time-series analysis in Appendix C. Since the topic of each following chapter differs from each other, I will summarize the results as needed and present them in the relevant chapters.

## Chapter 3

### Explaining the Peaceful China Policy of a Democratizing Taiwan

#### INTRODUCTION

How a country's democratic transition affects its foreign policy is one of the fervent debates in the literature of international relations theory. While some argue that democratizing states tend to act bellicosely, others assert that young democracies are likely to be peace loving in their foreign policies. Taiwan happened to go through a process of democratization from the late 1980s to the mid-1990s. In this chapter I discuss the connection between Taiwan's democratic transition and the orientation of its China policy during the transitional period.

For the period from 1987 to the mid 1990s, Taiwan was experiencing the transition into a liberal democracy. In July 1987, the ruling KMT regime lifted the martial law decree, which had been set up to consolidate the KMT's authoritarian rule when the regime had just moved to Taiwan. In January 1988, the ban on publishing new newspapers was also removed. In January 1989, a law allowing the organization of new political parties was passed. This law legalized the existing opposition party, the Democratic Progressive Party (DPP) and signified the beginning of party politics in Taiwan. In May 1991, the KMT government also repealed the R.O.C. (Republic of China) Constitution's Temporary Provisions to demonstrate its determination to normalize the country's constitutional framework.<sup>15</sup> At the end of that year, all the

---

<sup>15</sup> According to the website of *Taiwan Yearbook*, in the face of the threat from the Chinese communists, the National Assembly added to the Constitution a set of "Temporary Provisions during the Period of Mobilization and Combating Rebellion" in 1948. The Provisions superseded the Constitution and were

original members of the First National Assembly and First Legislative Yuan resigned in accordance with the 261<sup>st</sup> Ruling of the Council of Grand Justices that was reached in June 1990. After about four decades' suspension, the elections of the Second National Assembly and the Second Legislative Yuan were eventually held in December 1991 and December 1992, respectively.<sup>16</sup> The island's democratic transition was set to come to a close when the constitutional conference that was held in July 1994 officially changed the presidential election system to that of a direct presidential election. Eventually, the transition was completed when people in Taiwan directly elected the president in March 1996 for the first time in the island's history.<sup>17</sup>

As Taiwan was transforming into a democracy, did any change occur to its policy toward China during this time? If so, what is the connection between Taiwan's democratic transition and its China policy during that transitional period?

I argue that the process of Taiwan's democratization also simultaneously witnessed a particular period of cross-Straits relations in which the direction of Taiwan's China policy was generally peaceful. This was a direction of China policy that was more peaceful than that of the previous four decades because Taiwan kicked off cross-Straits contacts and exchanges to create *détente* across the Taiwan Strait. Compared with the

---

designed to enhance the president's power during the emergency period of the communist uprising. ( <http://english.www.gov.tw/Yearbook/index.jsp?catid=22&recordid=52746> )

<sup>16</sup> The elections were suspended by the Temporary Provisions during the Period of Mobilization and Combating Rebellion due to the occurrence of the Chinese Civil War. Consequently, the original members of the two congressional bodies, who were all elected in mainland China, were allowed to continue their jobs indefinitely after moving to Taiwan.

<sup>17</sup> As Linz and Stepan say (1996: 3), a democratic transition is considered to be completed when "a government comes to power that is the direct result of a free and popular vote, when this government *de facto* has the authority to generate new policies, and when the executive, legislative, and judicial power generated by the new democracy does not have to share power with other bodies *de jure*." Taiwan's 1996 presidential election is generally regarded as the conclusion of its democratic transition since the political development in its aftermath meets the conditions mentioned by Linz and Stepan. For example, see Higley, Huang, and Lin 1998: 148; Lin 1998: 371; Lin and Chu 2004: 7. Note that the completion of Taiwan's democratic transition does not necessarily mean the island has accomplished its democratic consolidation.



following period, the direction was also more peaceful because during its democratic transition, Taiwan continued to follow the “One China” policy, the bedrock of stability for cross-Strait relations.

I propose a theory that highlights the political calculations of Taiwan’s leader, President Lee Teng-hui, to explain the relationship between Taiwan’s democratization and the simultaneous emergence of a peaceful China policy. This theory assumes that Lee was a rational politician whose best interest was to consolidate power. By pointing out the constraints and options for Lee, the theory concludes that Lee’s best choice was to focus on political reforms while continuing President Chiang Ching-kuo’s China policy that stressed the “One China” policy and cross-Strait engagement. Lee’s decision eventually led to the appearance of a peaceful China policy during Taiwan’s democratization.

To test this theory, I present empirical evidence to show that the direction of Taiwan’s policy toward China during the period of democratic transition was generally more peaceful than that in the period following the completion of democratization. Utilizing a daily event dataset compiled by Virtual Research Associates, Inc. (VRA), the analysis compares the frequencies and intensities of cross-Strait cooperation and conflict between the transition period (1/1/1990-6/30/1995) and the consolidation period that followed (7/1/1995-12/31/2004).

This chapter is organized as follows. The following section quickly reviews the literature regarding democratization’s effects on foreign policy. Then I will lay out the theory that explains the link between Taiwan’s democratization and the concurrent emergence of a peaceful China policy. The next section will analyze Lee Teng-hui’s political calculations, followed by a section explaining how Lee’s rational decision led to

the peaceful China policy. Then I present the empirical evidence. The last section concludes this chapter.

## **FOREIGN POLICY OF A DEMOCRATIZING COUNTRY**

The debate over the way a country's democratization or regime transition affects its foreign policy started when Mansfield and Snyder released a seminal study in 1995. Although the school of democratic peace theory (DPT) claims that democracies do not fight each other because of the restraints of democratic institutions and norms (Doyle 1983, 1986; Layne 1994), Mansfield and Snyder claim in this study with the support of statistical findings that it is common to see *democratizing* countries act aggressively or become war-prone in their foreign policies. According to them, the seeds for democratizing countries to get involved in interstate conflicts are buried in the soil of two factors: weak institutions and threatened elites or groups. They argue that, as a country starts to democratize, its new institutional arrangements tend to be weak, and the losers in the reform process are likely to feel threatened. These weak institutions and threatened interests can easily create a political impasse in which no stable political coalition and state authority can exist. In order to break through this political impasse, politicians are inclined to resort to some tactics that can eventually lead to war.

On the contrary, some studies find that democratizing states are actually peaceful in their foreign policies. For example, by emphasizing the role of the ultimate decision maker, Lebow (1995) argues that Mikhail Gorbachev's commitment to domestic political and economic reforms is one of the conditions associated with the former Soviet Union's conciliatory foreign policy toward the West in the late 1980s. In his challenge to Mansfield and Snyder's argument, McFaul (1997-1998) claims that because the political leaders, political organizations, and economic groups that had both normative and material interests in international cooperation dominated throughout Russia's transition,

Russia's regime change in the 1990s did not really prompt any major international conflict. Malcolm and Pravda (1996) also disagree with Mansfield and Snyder by asserting that due to the anti-conflict public opinion and the absence of a powerful belligerent coalition that challenged the regime, no adventurous foreign policy had appeared in Russia since the 1990s.<sup>18</sup>

Therefore, no agreement has yet been reached in the literature regarding the effect of democratization on the direction of a country's foreign policy; while some argue that the transition into democracy could lead to the emergence of an aggressive foreign policy, others claim that the newly born democracies' foreign policies will be peaceful. In this chapter I join those who disagree with Mansfield and Snyder by providing a case study on Taiwan's experience.

#### **LEADERS' RATIONAL CHOICE**

Although the literature shows that democratization might bring about a cooperative foreign policy at the same time, scholars still have different opinions on how a country's democratic transition links to the emergence of such a foreign policy. Some of them point out that the leader's commitment to political reforms is a key factor; others mention the role played by winners of political reforms or domestic political contexts. Although these factors are likely to explain Taiwan's case as well, I argue that the state leader's rational calculation is an important factor that cannot be ignored when explaining the peaceful China policy during Taiwan's democratization.

The state leader's role is significant in Taiwan's transition into democracy. Unlike the transitions initiated by the sudden collapse of non-democratic regimes, by an armed revolution, by a military coup, or by an uprising of civil society, Taiwan's

---

<sup>18</sup> Some other scholars also challenge Mansfield and Snyder's argument with new case studies or different statistical findings, for example, see Wolf, Weede, Enterline, Mansfield, and Snyder 1996; Thompson and Tucker 1997; Ward and Gleditsch 1998; Enterline 1998.

democratization was a top-down one in which the state had control over the speed and scope of the transition.<sup>19</sup> Therefore, the state leader who planned the transition is a critical actor that cannot be overlooked.

It is presumed that rational leaders will seek to stay in power as long or as safely as possible (Levi 1997: 24). As the person who manages the transition of a regime, the state leader in a democratizing country will only take steps that could prolong not only the regime's existence but also his political life, especially when he is new and inexperienced and without any strong power base. Thus, while the leader is playing a two-level game in which he must at the same time deal with both domestic reforms and the country's foreign policy, he is likely to estimate the benefits and costs of each possible policy option by taking into consideration the resources he has and the constraints against him before he picks an option that could serve the goal of keeping himself in power safely. In my opinion, such a rational choice made by the state leader explains to a considerable degree why Taiwan's policy toward China was generally peaceful during its democratic transition. In other words, I argue that, the appearance of a relatively peaceful China policy during Taiwan's democratic transition to a large extent can be traced back to President Lee Teng-hui's strategic calculation soon after he took over power.

### *Lee Teng-hui's Calculations*

In 1987, in the face of a changing environment, President Chiang Ching-kuo made two moves that were unprecedented in Taiwan's political development as well as its relations with China. First, he initiated a limited scope of political reforms by

---

<sup>19</sup> As Chu (1992: 37) points out, "They [the incumbent reformists in Taiwan] demonstrated their capacity and intention to limit the scope of reform by controlling the course and pace of institutional reforms, setting the sequence of liberalization, and redesigning the political institution and election rules in the Kuomintang's favor. Also, in no instance did they make concessions to the opposition at the cost of weakening their own position within the party-state."

renouncing the martial law decree and granting permission for the publication of new newspapers. Second, he changed his own “three no’s” policy (that is, the policy of “no contact, no compromise, and no negotiation” with Mainland China) that was set up in 1979 by removing the ban over Mainland visits. Therefore, as Lee Teng-hui succeeded to the presidency what awaited him was the challenge of a two-level game of dealing with Taiwan’s domestic political reforms and Taiwan’s relationship with China. But, there was still one more critical test for Lee. That is, as a new and inexperienced leader, he also had to survive challenges from his political enemies.

Soon after taking over from Chiang Ching-kuo, Lee found that he was weakened and isolated by the mainlanders in the KMT. In the early 1970s, Chiang Ching-kuo recruited a few Taiwanese elites, including Lee, into the regime when he was the premier. But mainlanders still remained the dominant group in the KMT when Lee became the first native-Taiwanese president in the Republic of China’s history in 1988. Lee met his first challenge when a group of mainlanders attempted to stop him from taking over Chiang Ching-kuo’s party leadership by opposing Lee’s nomination for the KMT chairmanship. Subsequently, his new foreign policy thinking, shown by some of his diplomatic actions, also drew strong criticism from many KMT mainlanders as deviating from the traditional “One China” policy.<sup>20</sup> In February 1990, the challenge from the mainlanders became severe when Lee chose Lee Yuan-tsu as his running mate for the presidency. Being unsatisfied with the fact that Lee Teng-hui nominated Lee Yuan-tsu instead of any of their members or allies, these mainlanders joined other political foes of Lee’s to nominate their own candidates for the party’s presidential primary. Although this challenge against Lee Teng-hui was eventually unsuccessful, it still caused a split within the KMT, between those who supported Lee Teng-hui (called the mainstream faction)

---

<sup>20</sup> Lee’s new foreign policy thinking is termed “pragmatic diplomacy.”

and those who disagreed with him (the non-mainstream faction). To appease or even split his rival faction, Lee nominated Hao Pei-tsun, a major leader of the non-mainstream faction, as premier in May 1990.<sup>21</sup> But Hao, also a mainlander, proved to be a veto player against Lee's policy and thus a huge obstacle for Lee to stabilize his power.

These examples show that Lee as a Taiwanese was weakened and isolated by the mainlanders in the KMT regime. Thus, Lee's problem was not only how to deal with the two-level-game of domestic reforms and Taiwan's relationship with China; he also needed to worry about how to consolidate his own power base when playing this two-level game.

### ***Lee's Policy Options***

Judging from Lee's policies throughout his terms as president, he could have had the following different policy options when confronting the issues that Chiang Ching-kuo left behind in January 1988. First, Lee could choose to focus on deepening domestic political reforms and keeping Chiang's China policy, which opened cross-Strait exchanges but insisted that the "One China" policy remain unchanged. Second, he could instead leave political reforms at that and put his efforts into switching Chiang's China policy by redefining the Taiwan-China relationship (i.e. seeking Taiwan's *de facto* independent status) as well as tightening cross-Strait exchanges,<sup>22</sup> similar to what he did in his later presidential years. Third, he could focus on both continuing domestic reforms and changing China policy's direction at the same time. The fourth option for Lee was doing nothing further regarding both issues. Of these four options, Lee's best choice

---

<sup>21</sup> See Chen 1995: 208.

<sup>22</sup> In 1996 Lee announced the policy of "no haste, be patient" to restrict Taiwanese businessmen's investment in China. In 1999, he announced the "special state-to-state theory" to clearly define Taiwan as a *de facto* independent country.

would be the one that could help him survive the mainlanders' challenges and consolidate his power.

The constraints imposed upon Lee by Taiwan's political environment at the time had been a critical factor affecting Lee's choice of policy options. First, switching Chiang Ching-kuo's China policy would be against Lee's advantage given the power relations inside the KMT in the late 1980s. Because the mainlanders, still the dominant group in the KMT, were Chiang's loyal followers and strong supporters for the "One China" policy and cross-Straits exchanges,<sup>23</sup> any attempt of redefining the Taiwan-China relationship and tightening cross-Straits exchanges would only cause an instant and direct conflict between Lee and the mainlanders. This was a risky conflict that Lee had to avoid since he was very likely to be defeated without any strong power base.<sup>24</sup>

In addition, even if Lee chose to directly confront the mainlanders by changing Chiang's China policy, he would also find it difficult to mobilize any support from the public. In the late 1980s and early 1990s, the lack of a strong Taiwanese identity among the people in Taiwan had made the mobilization of support on national identity issues difficult. Thanks to the KMT regime's successful patriotic education policy in schools for

---

<sup>23</sup> As Lin, Chu, and Hinich (1996: 459) mention, "the nonmainstream faction favored broader economic and cultural exchange across the Taiwan Strait..." Because most mainlanders in the KMT joined the non-mainstream faction, we could know that the mainlanders supported the expansion of cross-Straits exchanges.

<sup>24</sup> In fact, Lee made a few delicate efforts in this regard, but he was smart enough to stop going further after encountering the mainlanders' resistance. For example, Lee took some unprecedented diplomatic actions not very long after becoming president. These actions differed from those in the Chiang Ching-kuo period in that Lee did not insist on using Taiwan's official title "the Republic of China" on some diplomatic occasions, in addition to trying to impress upon the world that Taiwan and China were two separate countries. Lee's actions included the following: In April 1988 Lee decided to send a delegation to the Asian Development Bank's annual meeting in Manila, even though China was also in attendance. Then, during his visit to Singapore in March 1989, he said he "was not satisfied with, but can accept" the fact that the Singaporean government called him "the President from Taiwan" rather than "the President from the R.O.C." Later in May 1989, he sent a high-level delegation to Beijing to attend another annual meeting of the Asian Development Bank, which was the first official visit by Taiwanese officials to China. Because the mainlanders in the KMT shared a strong Chinese national identity and were faithful guards of the "One China" principle, these diplomatic actions soon resulted in their suspicion and criticism that Lee was going to change the "One China" policy. Consequently, before Lee secured his power within the KMT in 1993, he never explicitly tried to change Chiang Ching-kuo's China policy.

four decades, the fact that most people shared a strong Chinese identity instead of a Taiwanese identity did not really change in the early years of Lee's terms as president. For example, according to a survey conducted in the summer of 1990 by National Taiwan University, when asked if they regarded themselves as Taiwanese rather than Chinese, 75.3% of the respondents disagreed while only 13.4% agreed. (More precisely, among those who responded, 36.6% said they strongly disagreed, 25.5% disagreed, and 13.2% slightly disagreed. 2.2% of the respondents said they strongly agreed, 5.4% agreed, and 5.8% slightly agreed [See Figure 3-1]).<sup>25</sup> Also, according to surveys by the Election Study Center at National Cheng-chi University (see Figure 3-2), in the period from mid-1992 to mid-1995, the percentage of those who thought of themselves as Chinese was still relatively higher than those who thought of themselves as Taiwanese.<sup>26</sup> Therefore, given the strong Chinese national identity shared among the people of Taiwan, redefining the Taiwan-China relationship would still be a hard option for Lee.

In contrast, conducting more political reforms appeared to be an optimal option for Lee to undermine the mainlanders' strength. On the one hand, expanding electoral venues by opening the elections of the two aged congressional bodies (the First Legislative Yuan and First National Assembly) could allow more local Taiwanese politicians to participate in national elections and then join the political center to become Lee's political allies. On the other hand, changing the presidential election system from indirect election to popular election could assist Lee to rally support from the vast amount of native Taiwanese voters in his campaign and thus build his own power base at the grass-root level.

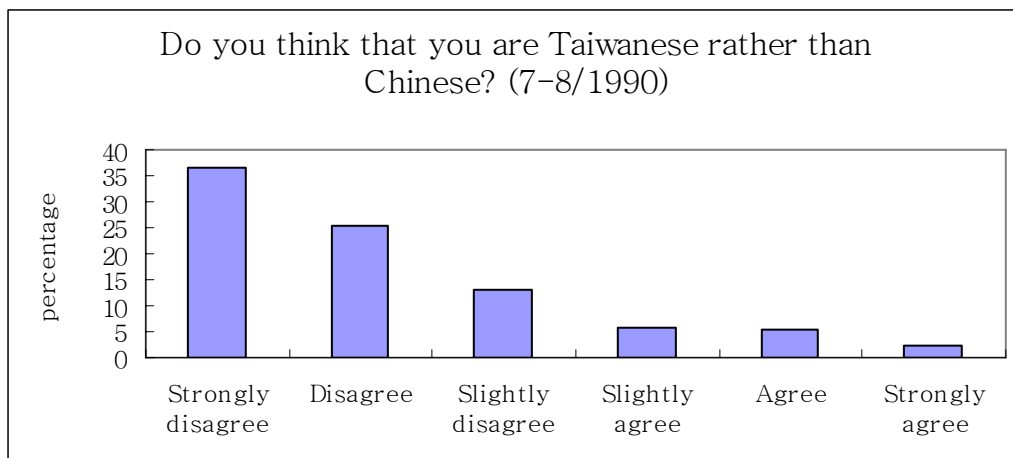
---

<sup>25</sup> The survey question was, "Do you think that you are a Taiwanese rather than a Chinese?" The survey was conducted by the 306 Workshop of the Political Science Department at National Taiwan University in July and August of 1990. The frequency analysis was completed by the author.

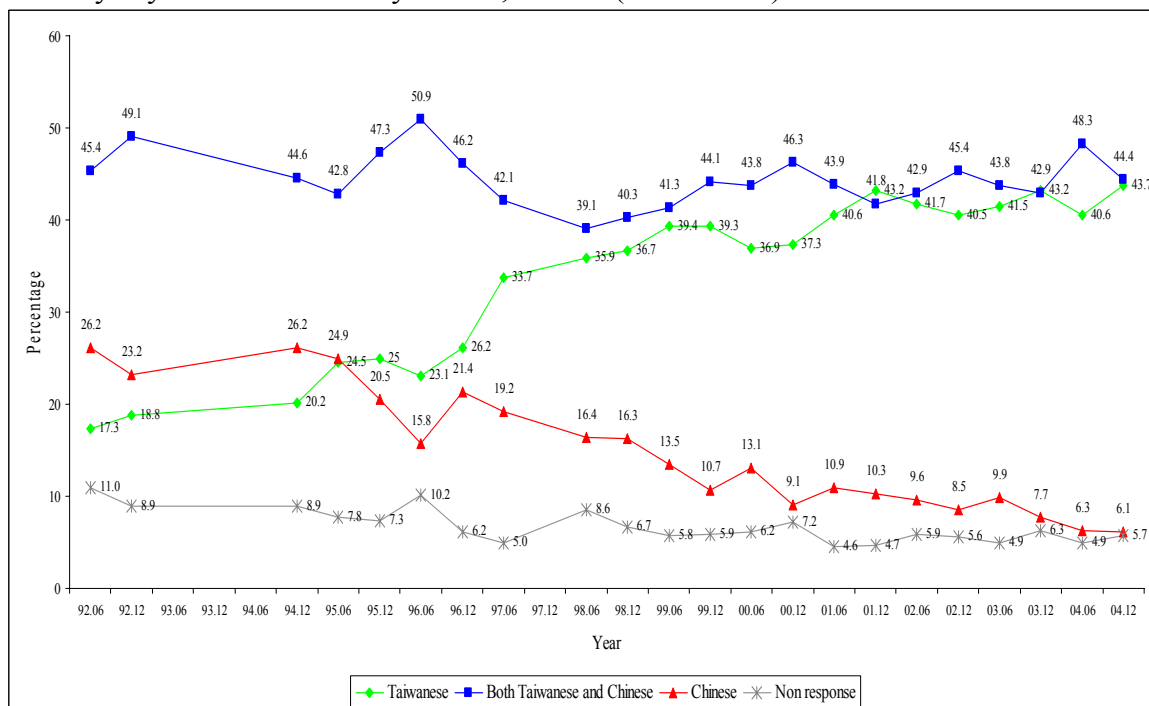
<sup>26</sup> Note that there was another option for the respondents in the Election Study Center's survey, that is, they could think themselves as "both Taiwanese and Chinese."



**Figure 3-1.** Distribution of National Identity in Taiwan



**Figure 3-2.** Changes in the Taiwanese/Chinese Identity of Taiwanese as Tracked in Surveys by the Election Study Center, NCCU (1992- 2004)



Source: Election Study Center, National Cheng-Chi University, Taiwan.

(<http://esc.nccu.edu.tw/eng/data/data03-2.htm>)

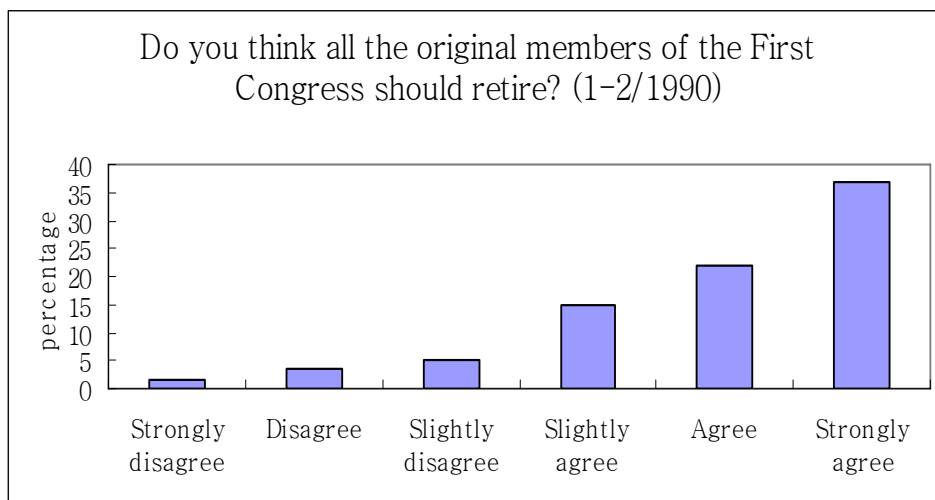
More importantly, Lee could also utilize the pressures from both the opposition party and public opinion to consolidate his power through political reforms. Political reform was the major issue targeted by the oppositional DPP in the late 1980s. Back in March 1987 when the party was still illegal, they passed a resolution at their party congress to request new elections for the two congressional bodies. In December, they held a demonstration on the same issue and again in January 1989. In December 1989, they held a demonstration that called for a direct presidential election. In a statement in March 1990, they asked the KMT government to make a timetable for solving some significant reform issues, including the new elections of the Legislative Yuan and National Assembly as well as the direct presidential election.

Meanwhile, public opinion supported the new elections of the two congressional bodies as well. For example, a large-scale student movement that occurred in March 1990 strongly urged life-long members of the National Assembly to retire. A 1990 survey by National Taiwan University also showed that only 10.1% of the respondents did not support the retirement of all the original members of the First Legislative Yuan and First National Assembly, while 73.6% agreed. (More precisely, among those who responded, 1.5% said they strongly disagreed, 3.5% disagreed, and 5.1% slightly disagreed. 36.7% of the respondents said they strongly agreed, 22.1% agreed, and 14.8% slightly agreed [See Figure 3-3]).<sup>27</sup>

---

<sup>27</sup> The survey question was, “Do you think all the original members of the First Congress (i.e. Legislative Yuan and National Assembly) should retire?” The frequency analysis was completed by the author.

**Figure 3-3. Voters' Opinions about the First Congress's Future**

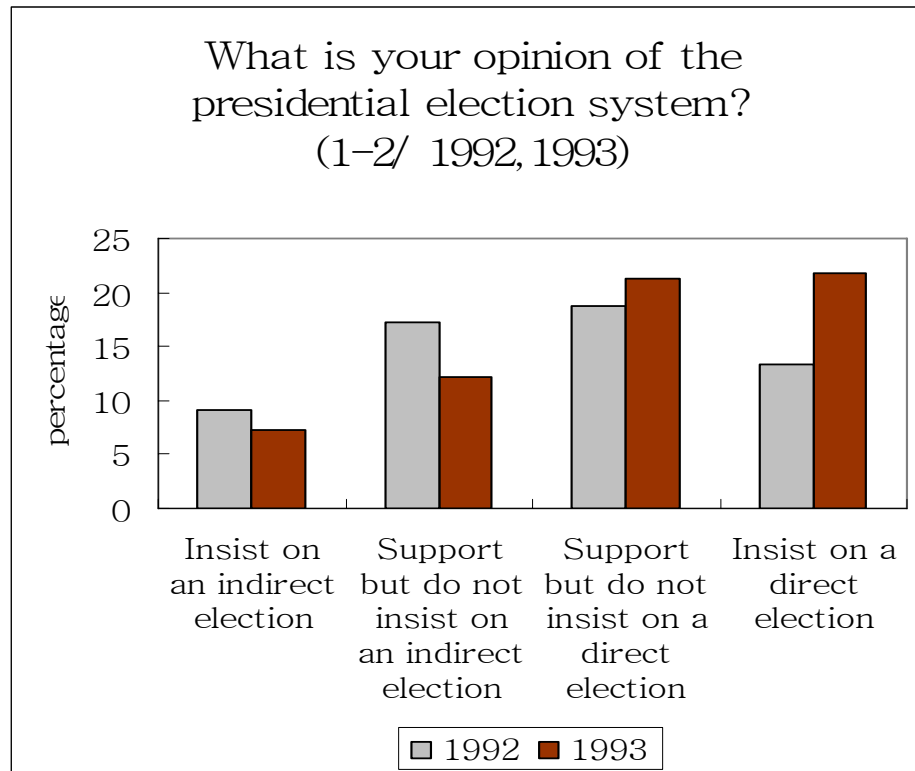


Later on, when the presidential election system became a focal issue on the agenda of constitutional amendment in early 1992, a survey conducted by National Taiwan University showed that 26.3% of the respondents supported the format of indirect elections, while 32.1% supported popular presidential elections. In early 1993, another survey by National Taiwan University showed that those who supported an indirect presidential election dropped to 19.5%, and those who supported a direct election rose to 43.1%.<sup>28</sup> (More accurately, in 1992, 9.1% of the respondents said they insisted on choosing the format of indirect election, 17.2% said they were supportive of but not insistent on an indirect election. 13.3% insisted on a change to a direct election, while 18.8% supported but did not strongly demand a direct election. In 1993, 7.3% of the respondents said they insisted on an indirect election, and 12.2% said they supported but

<sup>28</sup> The surveys were respectively conducted in January and February of 1992 and 1993. The survey question was, "What is your opinion on the presidential election system?" The frequency analysis was done by the author.

did not insist on an indirect election. 21.8% insisted on switching to a direct election, while 21.3% supported but did not insist on a direct election (See Figure 3-4). In other words, Taiwanese voters also supported the political reform that would change the presidential election system to the format of direct election.

**Figure 3-4.** Voters' Opinions about the Presidential Election System



### ***Political Reform as Lee's Priority***

The above analysis indicates that the best choice for Lee was the first option, that is, focusing on domestic political reforms while making no changes to Chiang Ching-

kuo's China policy. Indeed, Lee's talks on many occasions show that, instead of working on the redefinition of Taiwan-China relations, he chose to focus on political reforms as his first priority. For example, in June 1990 he said "we should generate the dynamic of the unification of the whole of China *with a more active democratic spirit as well as a much healthier constitutional system.*" In April 1990 he said, "*strengthening the constitutional system and fulfilling democratic politics* are the only fundamental ways to enrich the 'Taiwan experience' and direct the country's unification in the future." In a May 1991 article he talked about why he focused his efforts on political reform:

We believe that freedom, democracy, and prosperity have become our most precious and powerful assets. We should seek the identification and support from our compatriots on the mainland with our economic accomplishments and particularly political achievements. This is why I declared clearly in my inaugural speech that *I would manage with all my efforts to finish the constitutional reform within two years.*"<sup>29</sup>

Then in an interview by *The Washington Times* on July 4, 1991, Lee said:

*What is most important is our own internal democratic reforms; nothing has a higher priority than this. . . .* When we are fully successful in our democratization, our dealing with the mainland will be seen by the whole world in a totally different light. We will also be in a more powerful position when we negotiate with the Chinese Communists.

He added, "*Only after we have strengthened our own democracy will we be ready to consider other important moves vis-à-vis the Mainland.*"<sup>30</sup>

These examples show that, first, Lee put Taiwan's democratization as the most pressing agenda right after taking over power; second, he would kept Taiwan's China policy on the road that was paved by Chiang Ching-kuo. In my opinion, this decision is

---

<sup>29</sup> For details about these talks, see KMT 1992 (29, 141, 180), which is a collection of Lee's talks that was published by the KMT. Emphases are added.

<sup>30</sup> Quoted from Lin (1998: 356). Emphases are added.

the key to understanding why a peaceful China policy occurred while Taiwan was experiencing its democratic transition.

#### **THE FOREIGN POLICY CONSEQUENCE OF LEE'S RATIONAL CALCULATION**

Lee's rational calculation led to the appearance of a peaceful tone in Taiwan's China policy during Taiwan's democratic transition. This happened in two ways. First, when following Chiang Ching-kuo's China policy, Lee's emphasis on pursuing unification with China had been a factor that stabilized cross-Strait relations. Second, when national identity issues rose as a factor that was likely to destabilize cross-Strait relations in 1991, corruption issues that resulted from Lee's democratic reforms soon displaced national identity issues to take center stage in Taiwanese politics. Consequently, the détente across the Strait was able to be sustained for a longer time.

Lee started to plunge into major political reforms in 1990. In April, the KMT came to a consensus of putting an end to the tenure of all the old members of the Legislative Yuan and National Assembly. Later in June, Lee reached an agreement with the DPP in the National Affairs Conference to embark on constitutional reforms and the detailed plans of implementing these reforms were debated and decided in constitutional conferences before being put into the Additional Articles of the R.O.C. Constitution. Eventually, when the direct presidential election was finalized as the new format of presidential election in the July 1994 constitutional conference, both Lee's mission of political reforms and Taiwan's democratic transition were in fact about to come to a close.

In the meantime, as Lee also chose to keep his China policy on the same track as Chiang Ching-kuo's, some significant friendly gestures also appeared in Taiwan's actions toward China as the island's democratic transition was on its way. In particular, Lee continued to emphasize future unification with China as the ultimate goal of Taiwan's

China policy. For example, in August 1990 Lee announced a plan to set up the National Unification Council under the Presidential Office to show Taiwan's determination to pursue unification. The goal of unification was even written into the 1991 Guidelines for National Unification, the highest-level principles directing the making of mainland policy at the time. Such emphasis on unification or the "One China" principle was in close agreement with China's expectations and consequently constituted the critical factor that kept Taiwan's China policy looking peaceful. In addition, Lee also kept opening cross-strait economic, social, and cultural exchanges. In particular, to solve the problems that occurred from these exchanges, Lee allowed the Taiwan government to hold several semi-official administrative talks with China over topics such as mutual repatriation of illegal Taiwanese or Chinese immigrants, cooperative containment of maritime crimes, the certification of official documents, and so on. Cross-strait dialogue culminated in the 1993 Koo-Wang Talks in Singapore, the highest-level talks between the KMT and CCP governments since 1949. These exchanges and dialogues caused an atmosphere of détente that had never been seen in the Taiwan-China relationship.<sup>31</sup>

The peaceful tone of Taiwan's China policy was also sustained by the displacement of destabilizing national identity issues by issues of corruption. The controversies over national identity issues emerged soon after Taiwan's democratic transition began. On the one hand, they appeared within the KMT when Lee Teng-hui's diplomatic actions drew the mainlanders' suspicion and criticisms that Lee was going to

---

<sup>31</sup> The fact that cross-strait economic exchanges were among the factors contributing to this détente atmosphere seems to contradict Chapter 5's VAR results in which cross-strait commerce had no peaceful effect on Taiwan's China policy during the first period. But as I will discuss in Chapter 5, this insignificant effect in VAR results might come from two reasons. First, cross-strait commerce did not produce much significant commercial interests until its scale grew larger in 1993, which was late in the first period. Second, the appearance of a peaceful China policy in this period resulted mainly from President Lee Teng-hui's rational calculation, not his consideration of businessmen's commercial interests. Therefore, the peaceful China policy should be traced back to Lee's strategic calculation rather than cross-strait economic exchanges.

change the “One China policy.” On the other hand, they also came from the fact that the oppositional DPP switched their campaign to pursuing Taiwan’s independence right after Lee initiated political reforms. In particular, issues of national identity became a destabilizing factor for cross-Strait relations when in October 1991 the DPP released their “Taiwan-independence party platform” that explicitly stated the party was seeking to establish a sovereign and independent “Republic of Taiwan.”

But as Lin, Chu, and Hinich (1996) point out, issues of national identity were almost immediately overwhelmed by those of socioeconomic justice, in particular the KMT’s political corruption that resulted from Lee’s reforms. As Lee Teng-hui tried to bring more Taiwanese politicians into his party by way of political reforms, he also brought political corruption into the KMT. This was because when political reforms had turned elections into a regular political practice, Lee also put effort toward building close ties with both local factions and business groups to ensure KMT election victories. One way to do this was nominating members of local factions and business groups as KMT candidates in exchange for support from these factions and business groups. As a result, political corruption such as vote buying and bribes, which before existed only in local politics, was also extended to the national level. In addition, “money politics,” created by the exchange of interests between the KMT and business groups, were also tolerated by the government.

Right after its disastrous defeat in the Second National Assembly election that was held in December 1991, the oppositional DPP realized that national identity issues were still not appealing enough for the party to mobilize widespread electoral support. Therefore, it switched its cause to that of socioeconomic justice and soon targeted the KMT’s political corruption. On the eve of the Second Legislative Yuan election that was held in December 1992, the DPP proposed a “welfare state” platform to campaign for



socioeconomic justice. Moreover, in 1993, a few KMT members who disagreed with Lee's policies left the KMT and formed the New Party. The New Party was a party that supported unification with China and thus differentiated itself from the DPP on issues of national identity, but it joined the DPP to attack the KMT's money politics and political corruption. Thus, a new political cleavage of socioeconomic justice emerged over the traditional issues of national identity as a focus of Taiwanese politics.<sup>32</sup> Consequently, for some time, Taiwanese politicians rarely employed national identity issues to mobilize political support; thus the peaceful tone in Taiwan's actions toward China could be continued also.

Nonetheless, national identity was still the fundamental cleavage lying across Taiwan's political landscape. After Lee Teng-hui secured his power base in early 1993 and solved the last important issue of Taiwan's political reforms, the presidential election system, in the 1994 constitutional conference, the increasingly competitive electoral competition between the KMT, the DPP, and the New Party brought national identity issues back onto his new agenda. In June 1995 Lee launched an unprecedented diplomatic action by paying an unofficial visit to the United States. This action highlighted the beginning of his attempt to redefine Taiwan-China relations. But the strong reaction that it drew from China also ended the cross-Strait détente that occurred during Taiwan's democratic transition.

#### **EMPIRICAL EVIDENCE FROM EVENT DATA**

Taiwan's China policy during the democratic transition was more peaceful than that in the decades prior to the transition. Thanks to Lee's abidance to the "One China" policy while promoting political reforms, cross-Strait relations were also relatively more

---

<sup>32</sup> See Lin, Chu, and Hinich (1996) and Lin, Chu, Huang, and Zhang (2003) for details of conflict displacement in Taiwan's political development.

peaceful than in the ensuing period of democratic consolidation in which the policy was gradually abandoned.<sup>33</sup> In this section I present empirical evidence to support this observation.

My evidence is based on analysis of the VRA daily events dataset, which is the same event dataset that I will utilize throughout this dissertation. The VRA dataset spans 15 years, starting in January 1990 and ending in December 2004. For the needs of this analysis, I will divide this sample into two periods, the first from January 1990 to June 1995, and the second from July 1995 to December 2004. I set the cutoff point at the midpoint of 1995 mainly because of the following reasons.

First, Lee's U.S. tour in June 1995 is generally regarded as a turning point of the development of cross-Strait relations. It resulted in China's first wave of missile tests against Taiwan in July 1995, thus marking the start of the deterioration of Taiwan-China relations.<sup>34</sup> In other words, the atmosphere of cross-Strait relations before June 1995 was generally different from that after June 1995.

Second, I have argued that the public's embrace of a Chinese identity in the early 1990s is a condition that Lee took into account when he made his rational calculation. But more importantly, as I will elaborate in the next chapter, the rise of Taiwanese identity is also closely related to the deterioration of cross-Strait relations. June 1995 happens to be a watershed point in the trend of national identity. As Figure 3-2 shows, the proportion of people who embraced a Chinese identity had exceeded the proportion of

---

<sup>33</sup> For example, President Lee announced the "special state-to-state theory" in 1999; President Chen Shui-bian said in 2002 that Taiwan and China are two separate countries located at each side of the Taiwan Strait, i.e. "one side, one country."

<sup>34</sup> For instance, former chairman of Taiwan's Mainland Affairs Council Su Chi says that tensions in cross-Strait relations obviously thawed in the first half of the 1990s but rose again after mid-1995, particularly after Lee's visit to the U.S. See Su 2003: 28- 37.

people who embraced a Taiwanese identity until about June 1995. After that point, the amount of people who embraced a Taiwanese identity surpassed those who embraced a Chinese identity, and it has kept rising ever since.

Third, the constitutional conference in July 1994 had already settled the issue of the presidential election system, even though the first direct presidential election, which marked the end of Taiwan's democratic transition, was not set to be held until March 1996. Therefore, by mid-1995, Lee's democratic reforms were about complete.

**Table 3-1.** Frequencies of Cooperative and Conflictual Days

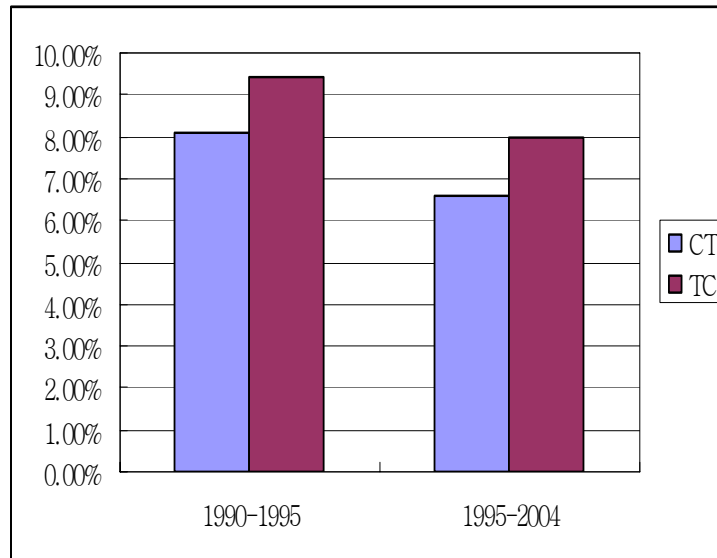
	Cooperation			Conflict		
	1/90-6/95 (N=2007)	7/95-12/04 (N=3472)	Diff. of proportions	1/90-6/95 (N=2007)	7/95-12/04 (N=3472)	Diff. of proportions
China to Taiwan	8.1%	6.6%	*	3.2%	6.1%	***
Taiwan to China	9.4%	8.0%	*	4.9%	6.2%	*

Note: \*\*\*  $p < .001$ , \*  $p < .05$ ; one-tailed test

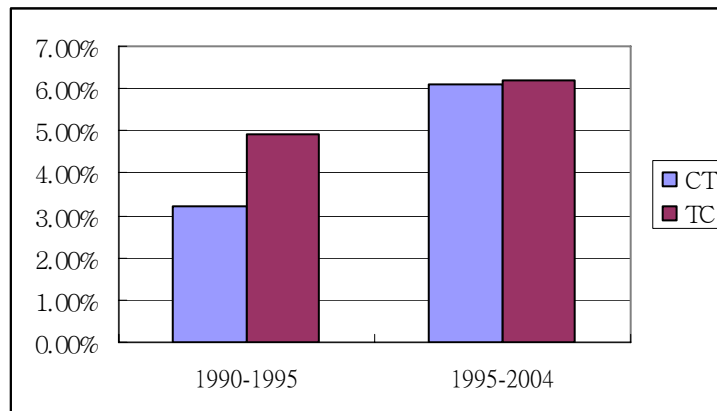
Table 3-1 presents the (relative) frequencies of both cooperative and conflictual days that Taiwan initiated. The frequencies of China-initiated eventful days are listed in the table as well.<sup>35</sup>

<sup>35</sup> I divide the number of cooperative (or conflictual) days in a period by the total days of the period to get the frequency of cooperative (or conflictual) actions in that period.

**Figure 3-5.** Frequencies of *Cooperative Days*



**Figure 3-6.** Frequencies of *Conflictual Days*



We learn from the results of the difference of proportions tests that all the differences between the two periods are statistically significant.<sup>36</sup> Thus, Table 3-1 (as well as Figure 3-5 and Figure 3-6) essentially shows that, in terms of frequency, both Taiwan and China initiated significantly more cooperative days and fewer conflictual days in the first period than in the second period.<sup>37</sup> Concerning China's actions toward Taiwan (*CT*), cooperative days decreased from 8.1% in the first period to 6.6% in the second period. Meanwhile, conflictual days increased from 3.2% in the first period to 6.1% in the second period. Concerning Taiwan's actions toward China (*TC*), cooperative days decreased from 9.4% in the first period to 8.0% in the second period, while conflictual days increased from 4.9% in the first period to 6.2% in the second period.

These results indicate that, in general, Taiwan was launching *conflicts* at a significantly *lower* rate in the *first* period than in the second period; at the same time, it was initiating *cooperation* at a significantly *higher* rate in the *first* period than in the second period. In this sense, empirical evidence supports the expectation that Taiwan's actions toward China during democratic transition were relatively more cooperative than during the post-transition period.

In terms of the *intensity* of cooperation and conflict, however, my analysis does not indicate a clear difference between the two periods except in conflicts initiated by China toward Taiwan.<sup>38</sup> Table 3-2 compares the means of the daily scores for cooperation and conflict between the two periods for both Taiwan-initiated and China-

---

<sup>36</sup> The tests are conducted with STATA 8.0 by using "two-sample test of proportion."

<sup>37</sup> Note that this is a day-based rather than event-based dataset. Therefore, if the net cooperation of one specific day is positive, the day will be regarded as a cooperative day. Similarly, if the day's net cooperation is negative, then it will be a conflictual day. See chapter 2 for the definition of net cooperation.

<sup>38</sup> The "difference of means" tests are conducted with STATA 8.0 by using "two-sample t test with unequal variances."

initiated actions.<sup>39</sup> The results show that the mean scores remain virtually the same across the two periods except in conflicts China initiated against Taiwan. As expected, the intensity of China-initiated conflicts increased drastically, from a daily average of -.13 in the first period to -.32 in the second period, and the difference is highly statistically significant. However, there is no significant change in China's cooperative actions toward Taiwan. Nor is there significant change in Taiwan's actions, cooperative or conflictual, toward China.

**Table 3-2.** Daily Averages of the Intensity of Cooperation and Conflict

	Cooperation			Conflict		
	1/90-6/95 (N=2007)	7/95-12/04 (N=3472)	Diff. of means	1/90-6/95 (N=2007)	7/95-12/04 (N=3472)	Diff. of means
China to Taiwan	.21	.21		-.13	-.32	***
Taiwan to China	.24	.25		-.20	-.20	

Note: \*\*\* p<.001; two-tailed test

Thus, despite increasing intensity in China-initiated conflicts, Taiwan-initiated actions became less cooperative and more conflictual only in frequency but not in intensity. My explanation is that in their actions and reactions toward China's increasingly intense threats, Taiwanese politicians mostly appealed or could only resort to low-intensity rhetoric. In other words, they talked the talk, but did not walk the walk.

---

<sup>39</sup> I divide the sum of all daily scores in one period by the total number of days in that period to calculate the mean score of the period. The sum of daily scores in one period is the total of scores of all daily actions, regardless of cooperative or conflictual, in the period.

This fact can be understood from the development of Taiwan's domestic politics after the mid-1990s, which was characterized by competitive elections and the rise of a Taiwanese national identity.

Although national identity issues receded from Taiwan's political landscape once socioeconomic justice emerged as a new political cleavage in 1992, they never really disappeared. Politicians turned their attention to national identity issues such as Taiwan's international status when the reform agenda was settled in 1995. In particular, national elections (especially presidential elections) that were introduced by democratic reforms have provided an arena for politicians from rival political parties to compete with each other on these issues. It was against this backdrop that President Lee gradually switched his agenda to the redefinition of cross-Strait relations. His visit to the U.S. in June 1995 was an example of such an attempt.

Lee's U.S. visit led to China's missile tests against Taiwan in the summer of 1995. But as Figure 3-2 shows, China's overreaction also contributed to the continuing growth of Taiwanese identity. In turn, an escalating Taiwanese identity provided incentives for politicians to campaign on national identity issues in fierce electoral competitions, which only provoked even more intense conflictual actions from China. This vicious circle typically occurred when a presidential election was nearing. In other words, mounting Taiwanese identity became a structural force that led politicians toward campaigning against China. And, because several national elections were held during the second period, including three presidential elections (in 1996, 2000, and 2004), it was not surprising to see Taiwan-initiated conflictual actions become more frequent in that period.

However, unlike China, whose conflictual actions against Taiwan often involved military threats, Taiwanese politicians' actions against China tended to be mostly

rhetoric, for example, Lee Teng-hui's "special state-to-state" theory and Chen Shui-bian's "one side, one country" remark. Pressures from the U.S., threats from China, and Taiwan's lack of capability may have prevented Taiwanese politicians from following up their rhetoric with more intense provocations. But rhetoric was often good enough for campaign purposes.

The above discussion has brought our attention to the role of Taiwan's domestic elections. In the next chapter I will discuss in more details how elections affect Taiwan's actions toward China.

## **CONCLUSION**

Two conclusions could be drawn from the above analysis. First, the state leader's rational calculation is a significant factor in explaining the association between a country's democratic transition and its foreign policy orientation during the transition. It is particularly so when each and every move of the country's regime transition is managed by the leader himself.

Mansfield and Snyder claim that democratizing states are likely to act belligerently in foreign policy, but just as some other cases have shown, Taiwan's case also shows that the foreign policy of a democratizing country is likely to be peaceful. In this chapter I argue that President Lee Teng-hui's rational calculation is the key to understanding why Taiwan's China policy appeared generally peaceful during its democratic transition.

As a new and inexperienced leader who was facing the breakdown of the KMT's authoritarian regime, Lee not only had to extend the regime's life but also his own political career. Therefore, when playing the two-level game of dealing with both domestic political reforms and the relationship with China, Lee chose the best option to help him survive, that is, concentrating on political reforms while maintaining the



direction of Chiang Ching-kuo's China policy. Compared to changing the China policy, which would both endanger Lee's career in his struggle with the mainlanders and lack public support, conducting political reforms by expanding electoral venues would not only undermine the mainlanders but also enjoyed significant public support. Consequently, as Lee launched his political reforms, a peaceful China policy that highlighted cross-Strait exchanges and the "One China" principle also emerged. In addition, the corruption issues that came as a result of Lee's reforms happened to develop over national identity issues and consequently help to sustain the peaceful direction of Taiwan's China policy for some time.

Second, Taiwan's democratic transition contributed to the conflictual China policy that appeared at the time when the transition was almost done. The empirical evidence in this chapter shows that from mid-1995 to 2004 Taiwan had initiated more conflicts and less cooperation than from 1990 to mid-1995 toward China. Therefore, some people who think Taiwan was still in the process of democratizing might argue that Mansfield and Snyder's argument is still right in Taiwan's case. But, I argue that the mechanism leading to the beginning of Taiwan's conflictual China policy is different from what Mansfield and Snyder have mentioned.

In their 2005 book Mansfield and Snyder argue that war is most likely a few years after the beginning of an incomplete transition from autocracy toward democracy. This is because the incomplete transition could easily lead to a mixed regime in which state institutions are weak and the fortunes of elites are uncertain. "Because state institutions are too weak to guarantee elites a soft landing, elites look to their own still-considerable resources to recruit mass allies and manipulate fragile democratic processes. They often do this by provoking nationalist sentiment, and an increased risk of international conflict is a common by-product." (2005: 54)

Taiwan's conflictual China policy did have something to do with Taiwanese nationalist sentiment, but its appearance was not because of elites' sense of uncertainty about their political future. In the 1990s, the losers in Taiwan's democratic transition, or the politicians who felt uncertain about their future because of losing power in the transition (i.e. those of KMT non-mainstream faction), were fully out of the game and lacked any stage to exercise political influences after Lee Teng-hui consolidated his power. Other elites' sense of uncertainty had also been considerably reduced by two elite settlements: the 1990 National Affairs Conference and the 1996 National Development Conference. In these two extraconstitutional conclaves that were called by Lee, elites of different political parties respectively reached their consensus over domestic political reforms and Taiwan's status versus mainland China (Higley, Huang, and Lin 1998: 149; Higley and Burton 2006: 97- 98). Particularly, with the consensus of resuming regular congressional elections, the National Affairs Conference helped strengthen the newly-born democratic institutions. Consequently, there was not much sense of uncertainty among each camp of elites nor would there be any incentive for these elites to appeal to nationalism.

Instead, the appearance of a conflictual China policy was the policy outcome of a fully democratic political system. Taiwan's democratic transition had brought about the institutionalization of political competition between different political parties. When people's Taiwanese national identity became stronger, the competition between these political parties was likely to encourage politicians to appeal to Taiwanese nationalism, which consequently contributed to the rise of a conflictual China policy. This was the result of mature democratic competition, not that of political impasse or weak institutions. This is similar to a mature democratic country which may still embark on an adventurous foreign policy, as long as that policy is made through the democratic

process. In my next chapter I will turn to the link between Taiwan's domestic electoral competition and its China policy, and I will further elaborate my argument there.

In sum, we should be cautious when applying Mansfield and Snyder's argument to Taiwan's case. It is true that after 1995 Taiwan's policy toward China turned more conflictual, but this occurred in a different context from what Mansfield and Snyder have described. In particular, Taiwan's conflictual China policy emerged at a time when the island's democracy had already been in position, if still not fully-developed. The island's democratic institutions, such as its electoral systems, were young but stable. The competitions between opposing camps of elites were severe, but these elites could still follow the fundamental democratic game rules in their struggles with each other<sup>40</sup> and reach crucial agreements in the two elite settlements. As Higley and Burton say, elite settlements tend to signify the emergence of a stable representative regime and eventually liberal democracy (2006: 101). In other words, we can say that Taiwan was in fact continually stepping toward a fully-grown democracy. Thus, its conflictual policy against China occurred exactly after it almost finished the journey to democracy, not when it got stuck in a mixed regime during the transformation from authoritarianism.

---

<sup>40</sup> Higley and Burton (2006: 100) argue that Taiwan's 2004 presidential election crisis is an example of such competition.

## **Chapter 4**

### **The Impact of Elections on Taiwan's Actions Toward China**

#### **INTRODUCTION**

How a country's elections affect its foreign policy is one of the major debates in international relations theory. Some studies show that politicians are likely to initiate or campaign for aggressive foreign policies when elections draw near. However, other research indicates that on the eve of elections candidates tend to take a conciliatory approach in handling their foreign policies. Since the 1980s, elections have turned into an important ingredient of Taiwanese politics. They contributed to the growth of the opposition movement and pushed toward the eventual democratic transition. After the completion of the transition, they also played an important part in the power alternation and thus the consolidation of Taiwan's democracy. So, as a democratic mechanism for domestic competition, what is the role that elections play in the making of Taiwan's China policy?

In this chapter I am going to discuss how elections have influenced Taiwanese politicians' actions toward China. I argue that elections provide an arena for politicians to advertise different ideas in front of voters. Because national identity is a divisive political issue in Taiwan, Taiwanese politicians tend to campaign for national identity issues in elections. In particular, the explicit or implicit campaigns for Taiwan's independence, which would provoke China by challenging its sovereignty claim over Taiwan, tended to appear when national elections neared. In this sense, elections were likely to encourage Taiwanese politicians to act confrontationally toward China.

I lay out an explanation to elaborate this argument. I claim that national identity first rose as a significant political issue in Taiwan in the early 1990s and then in the period after the mid-1990s. In the early 1990s, it was the opposition party, the DPP, who campaigned for the cause of Taiwan independence in national elections. These campaigns were more motivated by the opposition's traditional anti-establishment policy of fighting against the KMT regime. The significance of national identity decreased after the 1991 National Assembly election when socioeconomic justice issues surfaced as a new political cleavage in Taiwan. But the competition between the KMT and the DPP to improve Taiwan's poor international status, along with China's containment against these efforts, contributed to the rise of a Taiwanese identity around the mid-1990s. Since then, growing Taiwanese identity has driven both the KMT and the DPP to initiate electoral campaigns that stressed Taiwan's independent status.

By using the VRA (Virtual Research Associates, Inc.) events dataset, I conduct a VAR (vector autoregression) time-series analysis to support my argument that Taiwan's actions toward China would turn conflictual when elections neared. In addition, to illustrate my explanation about how the political cleavage of national identity brought about politicians' provocative campaigns, I will also explore some cases in details.

The organization of this chapter is as follows. The next section reviews the studies that research the impact of elections on foreign policy. Then I explain why Taiwanese politicians campaigned on the issues that provoked China in national elections. The following two sections present the results of the VAR analysis and case studies, respectively. The last section is the conclusion.

## **ELECTIONS AND FOREIGN POLICY**

Scholars have acknowledged the connection between a country's elections and its foreign policy, but disagree on how elections influence the directions of foreign policy.

The democratic peace theory claims that democratic institutions can constrain state leaders' intention of using force. Following this theory's tradition, some scholars assert that a country's domestic elections can contribute to the emergence of a peaceful foreign policy in the country. For instance, when explaining why democratic states are less likely to fight wars with each other, Lake (1992) says voting is one of the "voicing" means the society can apply to restrain the state. Gaubatz's study on democratic countries' involvement in wars from 1815 to 1980 concludes that "democratic states have entered more wars in the early stages of their electoral cycles and fewer wars in the later stages" (1991: 238). In a later work Gaubatz suggests again that elections tend to reduce state leaders' incentives to engage in wars. He argues this is because elections open a political space in which the anti-war elite can air their views. Since running against these antiwar voices entails political risk and costs by disrupting the social unity that a country needs when going to wars, state leaders are likely to decline the option of fighting the wars and instead stay on a peaceful course (1999: 27, 78).

On the other hand, some other studies point out that elections are associated with adventurous foreign policy or even wars. For example, Nincic's research (1990) shows that, in terms of strategic spending, the number of arms control agreements and the frequency of holding summits, U.S. policy toward the Soviet Union was generally more hostile during presidential election years. He argues that this tendency can be explained by the political reward structure in which the American people tend to punish leaders who mistakenly underreacted to a Soviet threat rather than those who wrongly overreacted to that threat in presidential elections (p.374). In addition, because a U.S. president does not have to run for reelection in his second term, Nincic's research also shows that U.S. presidents' Soviet policy tended to look more cooperative in their second terms than in the first terms.

Similarly, Smith (1996; 1998b) asserts that because voters tend to keep competent leaders and remove incompetent ones, state leaders in democratic countries are likely to take a hawkish approach in their foreign policy to display their competence, especially when the government's economic performance is poor or when they expect a close election. In another study, Smith claims that because not only hawkish voters but also dovish voters want to win wars, altogether they are likely to elect hawkish leaders who tend to fight longer and who are harder to defeat than dovish leaders. This electoral advantage for hawks can therefore encourage leaders to be as hawkish as possible (Smith 1998a: 310).

Although not necessarily related to elections, the insight of the scapegoat theory (or the diversionary theory of war) can also explain why politicians take assertive foreign policy positions when elections are imminent. This theory argues that state leaders are likely to start an external crisis or war to divert people's attention from their domestic weakness, or in expectation of overcoming the domestic challenges or crises they encounter (Lebow 1981: 61-80; Blainey 1988: 72-74). This occurs because external crises can easily produce a "rally around the flag" effect that strengthens people's support for state leaders during crises. Apparently, this effect is a strong incentive for politicians to drive their foreign policy toward a provocative course when running for elections.

The above literature shows that although researchers disagree with each other on how elections influence foreign policy, they still share a common point of view, that is, voters' preferences, or voters' preferences that politicians perceive, are able to affect how politicians make their foreign policy. For example, Gaubatz mentions the elite's anti-war voices can restrain politicians from going to war when elections are approaching; Nincic suggests that the political reward structure among American voters would lead to an aggressive policy toward the Soviet Union in a presidential election year; and Smith

claims voters' inclination to keep competent leaders could be an incentive for candidates to take a hawkish foreign policy.

In my opinion, voters' preferences do constitute an important factor in shaping candidates' foreign policies, evidenced by what occurred in Taiwan after the mid-1990s. However, voters' preferences are not necessarily the only driving force. As Taiwan's experience in the early 1990s shows, in a country that was going through transition from authoritarianism to democracy, the opposition movement's attempt to bring down both the old regime and the national identity created by that regime could also play a role.

### **ELECTIONS AND THE CLEAVAGE OF NATIONAL IDENTITY IN TAIWAN**

The clash between opposing national identities had been a major political cleavage in Taiwan. I argue that, as a structural factor, this political cleavage was closely associated with the fact that Taiwanese politicians tended to direct confrontational actions toward China during their electoral campaigns.

In free elections, candidates can promote different political opinions in their own campaigns. Therefore, elections provide an institutional arena for politicians to sell different ideas to voters. Generally speaking, the various ideas promoted by different candidates tend to reflect the social or political cleavage of a society. For example, in a society that is divided into different classes, a candidate who represents labor interests is likely to campaign on an issue that is in conflict with the opinion of a candidate who defends the interests of business or land owners. In Taiwan, a dominant political cleavage has taken shape along the controversies of the national identity since the 1980s: as opposed to those who regard themselves as Chinese and argue for Taiwan's unification with mainland China, some other people consider themselves as Taiwanese rather than Chinese and support for Taiwan's independent statehood in international society. In other words, all the national identity controversies point to the core debate of Taiwan's political



future, i.e. whether Taiwan should pursue its own independence or unification with mainland China. Therefore, elections in Taiwan have become a competing field for candidates to sell opposing views of national identity issues, particularly those of Taiwan independence. As China had always claimed sovereignty over Taiwan, campaigning for any Taiwan-independence opinions in Taiwan's elections would be regarded as a challenge to China.

In the last chapter I mention that national identity became a salient issue in Taiwanese politics for the first time around the early 1990s and then in the period after the mid-1990s. Without a doubt, the appearance of the Taiwan-independence rhetoric in elections was a main cause for the ascent of the issue. The question is, what was the mechanism that motivated Taiwanese politicians to promote Taiwan's independence or similar issues in electoral campaigns? In my opinion, the mechanisms were somewhat different in the above two periods. Of course, the common goal of politicians during elections is gain power. But, depending on the circumstances, politicians can take different routes to reach this goal.

In the early 1990s, it was the DPP who campaigned for Taiwan independence in elections. These campaigns were primarily motivated by the opposition's traditional anti-establishment stance that tried to bring down an authoritarian regime and the national identity that it created. Therefore, the promotion of a separate national identity in elections was aimed at rallying popular opinion against the KMT. In the period after the mid-1990s, both KMT and DPP politicians campaigned for ideas that stressed Taiwan's independent status. As winning elections is winning power, they were motivated by competing for the votes of the growing population who embraced a Taiwanese identity.

The political cleavage of national identity in modern Taiwanese politics is rooted in the period of the KMT's authoritarian control. Since the time it moved to Taiwan, the

KMT regime not only had curtailed people's political freedom and civil rights but also suppressed native Taiwanese's self-identity by imposing the ideology of the "One China" principle upon people through the education system. Thus, the goal of the opposition movement, whose members were mostly native Taiwanese who were purged by the KMT, was to overthrow the KMT government and establish an independent country that is both democratic and sovereign on the island of Taiwan. Taiwan's international isolation, which was caused by diplomatic setbacks in the 1970s, such as losing U.N. membership in 1971 and breaking official ties with the United States in 1979, had further strengthened the opposition's belief that only when Taiwan became an independent and sovereign country would other countries in the world establish official ties with Taiwan again.

As the first opposition party in Taiwan, since its inception the DPP has inherited the dual goal of establishing a democratic and an independent country. Although these two goals were equally important in their minds, as I have mentioned in the last chapter, DPP members spent most of the time targeting democratic reform in the late 1980s and therefore helped President Lee Teng-hui consolidate his power through political reforms. It was only after they reached an agreement in the National Affairs Conference with Lee on political reform issues that the DPP turned to the issue of Taiwan's independence in the early 1990s.<sup>41</sup> In other words, when the DPP's cause of democratic reforms was co-opted by Lee, the opposition party had no other choice but to find a new battleground for their fight against the KMT. And, since Taiwan's independence was the only goal left on their agenda, the DPP was able to secure the new battleground and switch their focus very quickly.

---

<sup>41</sup> For details of the National Affairs Conference, see Higley, Huang, and Lin 1998.

It is undeniable that DPP politicians' electoral campaigns for Taiwan independence during the early 1990s were aimed at expanding the party's vote shares by mobilizing those voters who supported the cause of Taiwan's independence. But I think their actions were also closely related to their attempt to reach the goal of Taiwan independence quickly and successfully. Just as elections became the main mobilization mechanism that the opposition utilized to exercise popular pressures on the KMT over the issues of democratic reform (Chu 1992: 48), by selling the idea of Taiwan independence in their election campaigns, the DPP turned elections into a mechanism that mobilized pressures on the KMT over the issue of Taiwan's national identity.

On the other hand, in the period after the mid-1990s, provocative campaigns were mainly driven by the rising Taiwanese identity among the electorate. The awakening of people's Taiwanese consciousness began with the DPP's "rejoin the U.N." campaign in the early 1990s. Although the national identity issue receded from center stage in Taiwanese politics when the DPP's explicit advocacy for Taiwan independence led to its defeat in the 1991 National Assembly election and when socioeconomic justice emerged as a new political cleavage, the DPP still continued to campaign on the platform of national identity but with a different appearance. Under the disguise of attempting to strengthen Taiwan's international status, the DPP's campaign for Taiwan's U.N. membership received extensive support from the Taiwanese people. Therefore, this was a successful campaign for the DPP since it not only implicitly furthered its cause of Taiwan independence but also put pressure on the KMT by highlighting the weakest part of the KMT government's performance, i.e. Taiwan's poor international status.

In the face of the DPP's challenge and pressure, President Lee switched his agenda to Taiwan's foreign relations after he settled the issues of political reform and secured his power base within his own party around the mid-1990s. He not only launched

the bid to join the U.N. but also paid several visits to Taiwan's allies and non-allies. His diplomacy culminated in his trip to the U.S. in June 1995, which resulted in the cross-Strait missile crises during that summer. But China's attempt to contain President Lee's diplomatic maneuvers, particularly its missile tests around Taiwan, also considerably increased the percentage of the people who embraced Taiwanese identity. In March 1996, China fired missiles near Taiwan again in an effort to prevent Lee from being elected in the first direct presidential election. However, this intimidation was not only in vain but also led again to growing Taiwanese identity. The mounting Taiwanese identity thus constituted an incentive for politicians, the KMT and the DPP alike, to campaign on the issues that could appease voters' Taiwanese consciousness. Therefore, candidates were likely to direct conflictual rhetoric against China when elections were forthcoming.

#### **EMPIRICAL EVIDENCE FROM CASES**

In this section I discuss in detail how Taiwanese politicians employed the national identity issues to turn their electoral campaigns into conflictual actions toward China. As I have explained, the incentive mechanism for politicians in the early 1990s was somewhat different from that after the mid-1990s, so I will pick up my cases from both periods. Table 4-1 lists Taiwan's major elections in these two periods.

**Table 4-1. Taiwan's Elections (1990-2004)**

<b>Date</b>	<b>Election(s)</b>
1991/12/21	National Assembly
1992/12/19	Legislative Yuan
1993/11/27	Local
1994/12/3	Local
1995/12/2	Legislative Yuan
1996/3/23	Presidential / National Assembly
1997/11/29	Local
1998/12/5	Legislative Yuan / Local
2000/3/18	Presidential
2001/12/1	Legislative Yuan / Local
2002/12/7	Local
2004/3/20	Presidential
2004/12/11	Legislative Yuan

Note: The 1994 local election was to elect the mayors of Taipei and Kaohsiung cities plus the Taiwan provincial governor. The 1998 and 2002 local elections were for the mayors of Taipei and Kaohsiung cities only.

### ***The 1991 National Assembly Election***

The promotion of Taiwan's independence and Taiwan's political democratization had been the ultimate mission of the opposition movement. Meanwhile, they were also the two guiding principles of the opposition's campaign against the KMT regime. Therefore, when President Lee took over the DPP's political reform issues in the National Affairs Conference in June 1990, the DPP began to switch their focus to the cause of Taiwan independence. This redirection of the DPP's campaign against the KMT could be seen from the following events.<sup>42</sup>

---

<sup>42</sup> See Kuan 1996: 68.

Shortly before the Legislative Yuan's supplementary election in 1989, DPP chairman Huang Shin-jie clearly stated, "*For the time being, talking about democracy and freedom is more important than talking about unification and independence for the DPP.*" He also mentioned the opposition party's strategy to win the upcoming election was to stress the fact that the DPP was more capable of bringing democracy and freedom to Taiwan than was the KMT.<sup>43</sup> However, on October 7, 1990, just less than four months after the close of the National Affairs Conference, the DPP's party congress passed a resolution which stated that Taiwan's *de facto* sovereignty did not cover mainland China and the territory of Outer Mongolia. Obviously, this resolution was a direct challenge to the KMT's "One China" policy which claimed sovereignty over both China and Outer Mongolia. Later in November of the same year, the DPP's central standing committee set up a "Committee for the Campaign for Taiwan's Independent Sovereignty" in order to fulfill their October resolution. In the same month, Chai Trong-Rong, a DPP member who just returned to Taiwan from exile in the U.S., also organized "the Association for the Promotion of Referendums" that aimed to decide Taiwan's future through a referendum. On December 25, 1990, the DPP launched a demonstration for the cause of Taiwan independence, which attracted thousands of people to join.

It is against this background that the DPP kept campaigning for Taiwan independence both explicitly and implicitly in 1991, the year that the Second National Assembly election was set to take place. On the one hand, they put their effort toward the issue of making a new constitution. This was a very provocative action in the eyes of both the KMT and Beijing because unlike constitutional amendments, constitution-making was an implicit attempt to establish a new country. This effort started in May when the central standing committee of the DPP decided to promote a campaign for

---

<sup>43</sup> *United Daily News*, November 15, 1989, p. 3. Emphasis is added.

creating a new constitution. In August, they carried on the endeavor by holding the “People’s Constitution-Making Conference” and passed the so-called “Constitution Draft for Taiwan” which argued for the change of Taiwan’s official title from “the Republic of China” to “the Republic of Taiwan.”<sup>44</sup>

In the mean time, the DPP members also launched the “rejoin the United Nations” campaign, a movement that attempted to send Taiwan back to U.N. with complete sovereign status. For instance, Chai Trong-Rong organized two demonstrations demanding a referendum on the U.N. issue in Taipei and Kaohsiung and was joined by thousands of people. Then, in September 1991 DPP member Annette Lu organized a propaganda team to lobby the U.N. General Assembly for Taiwan’s U.N. membership in New York. On September 30, 1991, DPP Legislator Frank Hsieh and the KMT government’s Deputy Minister of Foreign Affairs debated the U.N. issue on TV.

The DPP’s crusade for Taiwan independence reached its peak in October, only two months before the election. During the party congress held on October 13, 1991, the DPP added a “Taiwan independence” article into its platform after brutal debates between different camps. The article clearly advocated for the establishment of an independent and sovereign “Republic of Taiwan”<sup>45</sup> and thus challenged both the KMT’s and the CCP’s pledges for unification between Taiwan and China.

It is true that one motivation behind the DPP’s campaign for independence-related issues was to mobilize the voters who supported Taiwan independence in order to maximize the votes they could catch in the 1991 election. For example, when mentioning the “Constitution Draft for Taiwan” that was passed in the “People’s Constitution-Making Conference,” the director of the DPP policy center, Huang Huang-hsiung, said its

---

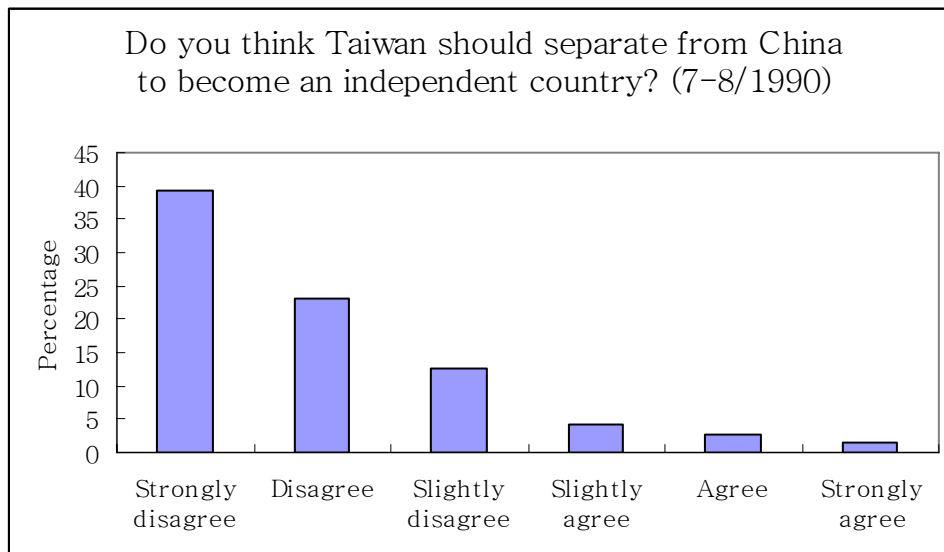
<sup>44</sup> Ibid., August 25, 1991, p. 2.

<sup>45</sup> Ibid., October 14, 1991, p. 1. The DPP’s party platform was thus called “the Taiwan independence platform” thereafter.

major goal was to set down the party's campaign theme for the upcoming National Assembly election.<sup>46</sup> In addition, those DPP members who argued for the inclusion of "Taiwan independence" in the party's platform also thought it helpful for the mobilization of DPP supporters.<sup>47</sup>

Nevertheless, this motivation was shaped more by DPP elites' missionary spirits toward promoting the cause of Taiwan independence, rather than by voters' preferential structure which was unfavorable to the DPP. According to an island-wide survey that was conducted by National Taiwan University in the summer of 1990, when asked if they supported the separation of Taiwan from China, 39.4% of the respondents strongly disagreed, 23.1% disagreed, and 12.5% slightly disagreed. Only 1.5% of them strongly agreed, 2.7% agreed, and 4.3% slightly agreed (See Figure 4-1).<sup>48</sup>

**Figure 4-1.** Voters' Opinions about Taiwan's Independence



<sup>46</sup> Ibid., July 12, 1991, p. 4.

<sup>47</sup> Ibid., October 14, 1991, p. 3.

<sup>48</sup> The survey was conducted by the 306 Workshop of the Political Science Department at National Taiwan University. The frequency analysis is completed by the author.



In other words, public support for the DPP's Taiwan independence cause was very low at the time. If the DPP decided to follow majority opinion, then they would have immediately stopped their promotion of Taiwan independence. But this did not look like an option for DPP leaders. For instance, DPP chairman Huang Shin-jie said that since the DPP had passed the "Constitution Draft for Taiwan" and put it as the party's main theme of the electoral campaign, then it was also reasonable to list the "Republic of Taiwan" in the platform. He also thought that since the KMT had set up the "National Unification Council," then it was not a big deal for the DPP's platform to include the "Republic of Taiwan" because that was just a balance against the KMT.<sup>49</sup> Chen Shui-bian, the future president and then a DPP legislator, argued that because Taiwan independence was not just a political opinion but also one of the critical options for the future of Taiwan's 20 million people, the DPP had to fight against the KMT for the freedom to express opinions regarding Taiwan's future.<sup>50</sup>

### ***The 1996 and 2000 Presidential Elections***

Beginning in the mid-1990s, growing Taiwanese identity became a significant force that shaped politicians' positions on national identity issues in elections. Although politicians did not clearly promote Taiwan independence any more, the rising Taiwanese identity had led them, KMT and DPP alike, to campaign with opinions that still implied Taiwan independence.

The DPP's showing in the 1991 National Assembly election turned out to be weak. As Table 4-2 shows, the DPP's vote share ascended from 22.22% in 1986 to 28.2% in 1989, but dropped to 23.94% in the 1991 election. Because the KMT won 71.17% of the votes in the 1991 election, a vote share that is significantly higher than what it got in

---

<sup>49</sup> *United Daily News*, September 27, 1991, p. 2.

<sup>50</sup> *Ibid.*, October 12, 1991, p. 2.

1989 (60.83%),<sup>51</sup> the DPP's shrinkage of 4.26% in its vote shares from 1989 to 1991 was regarded as a fiasco for the party. This defeat temporarily stopped the DPP's advance in promoting Taiwan's independence. Instead, the party switched its focus to attacking the KMT's "money politics," and as a result socioeconomic justice rose above national identity as a new political cleavage in Taiwan (Lin, Chu, and Hinich 1996).

**Table 4-2.** DPP Vote Shares (%)

<b>Election</b>	<b>Year</b>	<b>vote share</b>
Legislative Yuan	1986	22.22
Legislative Yuan	1989	28.2
National Assembly	1991	23.94
Legislative Yuan	1992	31.03
Local	1993	41.03
Legislative Yuan	1995	33.2
Presidential	1996	21.13
National Assembly	1996	29.9
Local	1997	43.3
Legislative Yuan	1998	29.6
Presidential	2000	39.3
Legislative Yuan	2001	33.4
Local	2001	45.3
Presidential	2004	50.11
Legislative Yuan	2004	35.724
Local	2005	41.95

Sources: Chu, 1992; website of Election Study Center, National Chengchi University; *United Daily News*.

<sup>51</sup> Ibid., December 22, 1991, p. 1.

Although the DPP failed in their explicit promotion of Taiwan independence, they were quite successful in the implicit attempt. Their “rejoin the U.N.” campaign was widely supported by the Taiwanese people. In a poll conducted by the *United Daily News* on September 18 and 19, 1991, 60.8% of all respondents and 65.8% of respondents who were KMT supporters agreed that Taiwan should rejoin the United Nations.<sup>52</sup> This campaign not only awakened people’s Taiwanese identity by rallying their aspiration for Taiwan’s complete sovereign status, it also emphasized Taiwan’s international isolation, which occurred during the KMT’s rule. Consequently, it generated strong pressure against the KMT.

President Lee Teng-hui responded to the DPP’s challenge by launching a wave of diplomatic endeavors, particularly after he removed the KMT’s non-mainstream faction in early 1993, and finished settling all major issues of political reform, including that of the presidential election system, in 1994. In April 1993 he declared a bid to rejoin the U.N. Then starting from 1994, he paid visits to several allies and non-allies. In 1994, he visited the Philippines, Indonesia, Thailand, Nicaragua, Costa Rica, South Africa, and Swaziland. In April 1995, he traveled to the United Arab Emirates and Jordan.<sup>53</sup> Lee’s diplomatic venture culminated in his visit to the U.S. in June 1995, which was six months before the 1995 Legislative Yuan election and nine months prior to the first direct presidential election. There is no question that Lee’s diplomatic actions were aimed at soothing voters’ growing aspiration for Taiwan’s full international status.

Lee’s U.S. tour was a critical point in the development of Taiwanese identity. China was irritated by the fact that Lee did not mention any word of “China” in his

---

<sup>52</sup> The data were provided by the Office of Survey Research, Academia Sinica, Taipei. The results came from the author’s analysis of the data.

<sup>53</sup> See Su 2003: 36; Chang 2000: 115- 127. Lee’s first foreign visit was the trip to Singapore in 1989. From 1990 to 1993, the time he was preoccupied with domestic reforms and the consolidation of his power base, he did not travel abroad.

speech at Cornell University and thus criticized his U.S. trip as an act producing “two Chinas” or “one China, one Taiwan.”<sup>54</sup> In addition to launching a series of criticisms against Lee, China also postponed the second high-level administrative talks that were scheduled to take place soon thereafter. In July and August China fired missiles toward the waters near Taiwan. Then again in March 1996, China fired missiles trying to stop Lee’s victory in the presidential election. But from Figure 3-2 (in Chapter 3) it appears that after the missile crisis in the summer of 1995, the percentage of those who embraced a Taiwanese identity began to surpass that of those who embraced a Chinese identity. Apparently, by generating a “rally around the flag” effect among Taiwanese people, China’s intimidation had contributed to the rise of Taiwanese identity.

As elections turned more and more competitive, the distribution of people’s national identities also became a factor that affected politicians’ positions on related issues. Particularly in presidential elections, which elect only one winner from a single district of the whole nation, candidates had to follow the preferences of the majority of the nation’s voters in order to maximize their votes. Figure 3-2 shows that the difference between the percentage of those with a Taiwanese identity and of those with a Chinese identity grew larger and larger after December 1996. Therefore, when the 2000 presidential election was looming, it was not surprising to see politicians embracing the issues that echoed the rising Taiwanese identity. The most significant example is President Lee’s outspoken declaration of the “special state-to-state theory” in July 1999, which was eight months before the election. On July 9, 1999, when interviewed by the delegation from the Deutsche Welle Radio, Lee declared:

The 1991 constitutional amendments have placed cross-strait relations as a state-to-state relationship or at least a special state-to-state relationship, rather than an internal relationship between a legitimate government and a

---

<sup>54</sup> *United Daily News*, July 29, 1995, p. 10; June 12, p. 6.

renegade group, or between a central government and a local government.<sup>55</sup>

At the time, with a presidential election just around the corner, when the percentage of those sharing the Taiwanese identity reached an all-time high and the percentage of those holding the Chinese identity an all-time low,<sup>56</sup> Lee's motivation to announce the "theory" was very likely aimed at boosting votes for KMT presidential candidate Lien Chan.<sup>57</sup>

Concerning the issue of the Taiwan-China relationship, the Taiwanese identity that was shared by a significant portion of Taiwanese people also drove other presidential candidates to position themselves at the points that were close to Lee's. For example, although DPP candidate Chen Shui-bian took the so-called "new middle-of-the-road approach" in his presidential campaign to dilute his image as a Taiwan independence supporter, he still argued that Taiwan and China were in "a special relationship between two states," a similar wording to Lee's "theory." Another candidate, James Soong, who left the KMT to run as an independent candidate, considered both sides of the Strait in "a quasi interstate relationship," which is still comparable to Lee's "theory."<sup>58</sup>

### ***The 2004 Presidential Election***

The year prior to the 2004 presidential election also witnessed politicians' campaigns that were driven by people's strong Taiwanese identity. The two most

---

<sup>55</sup> Quoted from the website of Taiwan Security Research <http://taiwansecurity.org/TS/SS-990709-Deutsche-Welle-Interview.htm>.

<sup>56</sup> As Figure 3-2 shows, 39.4% of the respondents had the Taiwanese identity but only 13.5% of them carried the Chinese identity in June 1999.

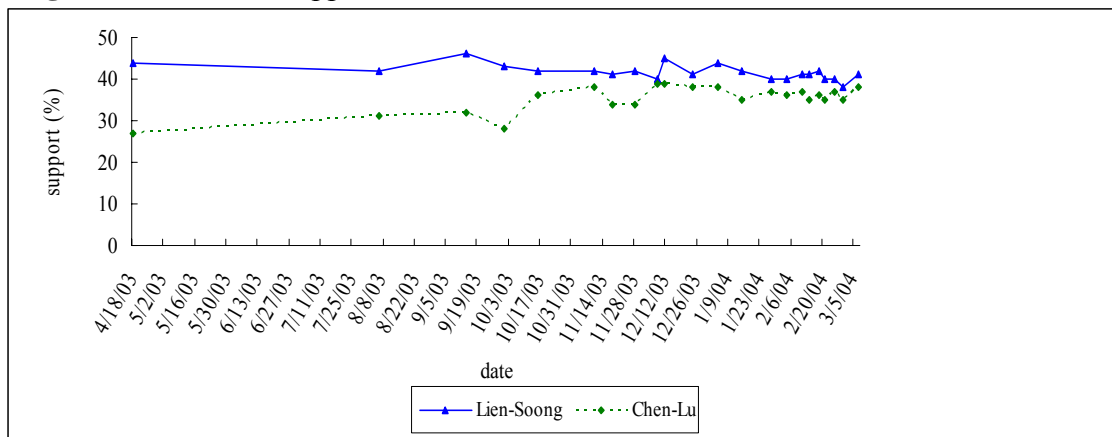
<sup>57</sup> Lee's action might also have been motivated by other factors such as his sense of urgency about the issue of Taiwan's international status. See Su 2003: 77; Zou 2001: 222.

<sup>58</sup> For Chen's and Soong's definitions of the Taiwan-China relationship, see *United Daily News*, February 18, 2000, p. 3.

significant instances are President Chen Shui-bian's announcement of promoting a new constitution, and his race with his opponents on the referendum issue.

On September 28, 2003, five months before the 2004 presidential election, Chen claimed the DPP would promote the birth of a new constitution in 2006.<sup>59</sup> This was a claim that strongly implied the pursuit of Taiwan's independence because as I said earlier, a new constitution means the establishment of a new country. Thanks to the fact that in 2003 more than 40% of Taiwanese people embraced the Taiwanese identity, Chen's campaign for a new constitution was effective. As Table 4-3 and Figure 4-2 show, after his announcement, Chen and his vice president Annette Lu were able to catch up with their opponents (the Pan Blue camp's candidates, i.e. KMT chairman Lien Chan and PFP chairman James Soong) and reduce the gap of voter support between the two camps.<sup>60</sup>

**Figure 4-2.** Voters' Support for the 2004 Presidential Candidates



Source: *United Daily News* polls.

<sup>59</sup> Ibid., September 29, 2003, p. A1.

<sup>60</sup> The Pan Blue camp was composed of the KMT and the PFP (People First Party) who shared the common ideology of pursuing unification. The PFP was set up by James Soong after Soong lost the 2000 presidential election.

**Table 4-3.** Voters' Support for the 2004 Presidential Candidates (%)

<b>Date</b>	<b>Lien-Soong (Pan Blue)</b>	<b>Chen-Lu (DPP)</b>	
2003/4/18	44	27	
2003/8/6	42	31	
2003/9/14	46	32	
2003/10/1	43	28	Chen declared the plan about a new constitution (on 9/28).
2003/10/16	42	36	
2003/11/10	42	38	
2003/11/18	41	34	
2003/11/28	42	34	
2003/12/8	40	39	
2003/12/11	45	39	
2003/12/24	41	38	
2004/1/4	44	38	
2004/1/15	42	35	
2004/1/28	40	37	
2004/2/4	40	36	
2004/2/11	41	37	
2004/2/14	41	35	
2004/2/18	42	36	
2004/2/21	40	35	
2004/2/25	40	37	
2004/2/29	38	35	
2004/3/7	41	38	

Source: *United Daily News* polls.

As a matter of fact, before Chen's "new constitution" campaign, he had already initiated the campaign for holding referendums. With the fueling of people's strong Taiwanese identity, this campaign contributed to the phenomenon of "racing to the referendum,"<sup>61</sup> where both DPP and KMT presidential candidates competed against each other on the issue of referendum.

Holding any referendum is also a provocative action in China's eyes since any Taiwan-independence issue could be determined by a referendum too. But the occurrence of the following two events helped Chen find the referendum issue suitable for his reelection campaign. First, in the spring of 2003, former DPP chairman Lin Yi-hsiung, who was widely respected by DPP members and was an anti-nuclear activist, launched a campaign that asked President Chen to hold a referendum with regard to the construction project of Taiwan's Fourth Nuclear Power Plant. Taking advantage of Lin's pressures, Chen started to promote the legislation of the Referendum Law. Second, during the SARS epidemic crisis, China rudely stopped Taiwan's attempt to officially participate in activities organized by the World Health Organization (WHO). Chen responded by arguing for holding a referendum about Taiwan's entry into the WHO,<sup>62</sup> which enabled him to continue his campaign on the referendum issue.

Chen's referendum campaign, including his effort on the Referendum Law's legislation, was strongly opposed by the Pan Blue camp. The Pan Blue's obstruction to Chen's campaign included: first, in March 2003, their legislators blocked the DPP's draft of the Referendum Law in the Legislative Yuan's Internal Affairs Committee; then in

---

<sup>61</sup> The term comes from Wu (2004).

<sup>62</sup> *United Daily News*, May 21, 2003, p. A2.



early June they killed the draft in the legislature's floor session, which was not long after Chen's declaration in May that he would hold a referendum to join the WHO.<sup>63</sup>

An interesting twist occurred in the Pan Blue's struggle with Chen when they agreed with the legislation of the Referendum Law in late June. This sudden change was pushed by concern that voters might withdraw their support from the camp if they believed the DPP's accusation that the Pan Blue was opposing people's political right to hold referendums.<sup>64</sup> Therefore, Pan Blue leaders Lien Chan and James Soong announced their support not only for the legislation of Referendum Law but also the referendum on the project of the Fourth Nuclear Power Plant,<sup>65</sup> although they claimed that they were against any referendum that would change Taiwan's status quo.<sup>66</sup> This change in Pan Blue attitude was just an overture in a bidding war between the Pan Blue camp and Chen. On October 23, the Pan Blue camp released their draft of the Referendum Law, in which any referendum about constitutional change was not allowed.<sup>67</sup> Two days later, Chen Shui-bian responded by announcing his plan to hold a referendum on the making of a new constitution.<sup>68</sup> On November 13, the Pan Blue returned fire when James Soong declared that his camp would wholeheartedly support the legislation of the Referendum Law and put no limits on the topics of referendums.<sup>69</sup> On November 15, Lien Chan released his "trilogy of a new constitution," in which he suggested the addition of an article to the constitution by mid 2004 to ensure people's right to hold referendums about

---

<sup>63</sup> For Chen's announcement, see *ibid.*, May 21, 2003, p. A2.

<sup>64</sup> *Ibid.*, June 23, 2003, p. A2.

<sup>65</sup> *Ibid.*, June 28, 2003, p. A3.

<sup>66</sup> *Ibid.*, July 4, 2003, p. A1.

<sup>67</sup> *Ibid.*, October 24, 2003, p. A2.

<sup>68</sup> *Ibid.*, October 26, 2003, p. A3.

<sup>69</sup> *Ibid.*, November 14, 2003, p. A2.

constitutional amendments. Lien's "trilogy" also suggested that a referendum on a new constitution be held by early 2005.<sup>70</sup> On November 27, the Referendum Law that approximates to the Pan Blue version was passed in the Legislative Yuan with the dominance of Pan Blue legislators, which was regarded as a defeat for the DPP. On November 29, Chen Shui-bian took his revenge. He announced that, in accordance with Article 17 of the Referendum Law, he would hold a referendum, on the same day as the upcoming presidential election, to defend the country's sovereignty and security.<sup>71</sup> This was the so-called "defensive referendum" that Chen proposed.

As the culmination of his referendum campaign, Chen's announcement on November 29 basically concluded his race with the Pan Blue on the issue. There is no doubt that both Chen and the Pan Blue might not have gone so far on the referendum issue without the strong Taiwanese identity that was shared among many people in Taiwan.

#### **EMPIRICAL EVIDENCE FROM EVENT DATA**

In this section I will present empirical evidence from event data to show that Taiwanese politicians tended to engage in conflictual actions toward China when national elections approached. I conduct a VAR time-series analysis on the VRA events dataset to gauge the effects of elections on Taiwan's actions toward China. As I show in the chapter of research methods and data, the VAR model includes two election variables that are measured by the number of days to the next election: one for presidential elections and the other for parliamentary elections (i.e. the Legislative Yuan election and the National

---

<sup>70</sup> Ibid., November 16, 2003, p. A1.

<sup>71</sup> Article 17 of the Referendum Law says, with the Executive Yuan's resolution, the president can hold a referendum on national security issues when any external threat is able to interfere with the country's sovereignty. Chen argued Taiwan's sovereignty could be changed at any time because the external threat it faced was in the "present progressive tense." See *ibid.*, November 30, 2003, p. A1.

Assembly election). In addition, for the same reason that I mentioned in the last chapter, I also divide the sample of the dataset into two periods (the first period from January 1, 1990 to June 30, 1995 and the second from July 1, 1995 to December 31, 2004) to observe the impacts of elections.

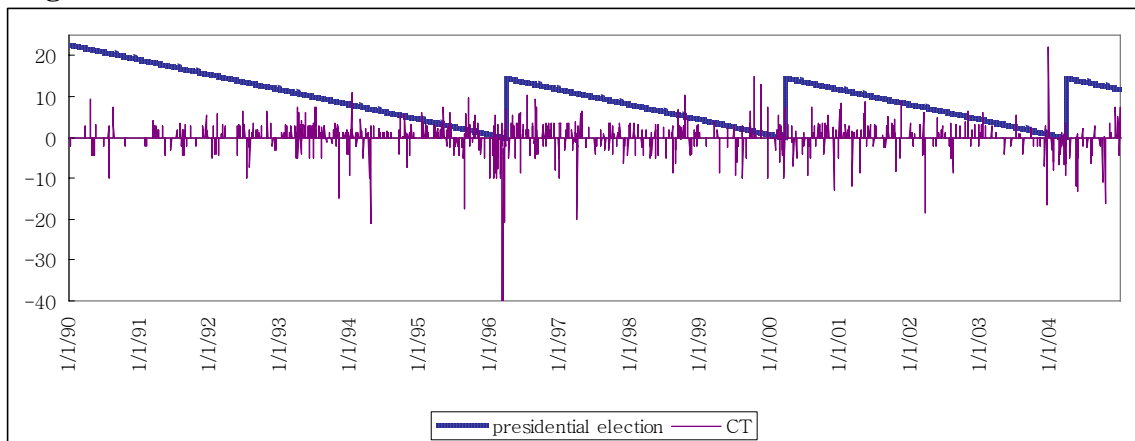
I present the full set of results of the VAR time-series analysis in Appendix C. For the purpose of this chapter's analysis, I summarize the results about impact of elections in Table 4-4. The effects of elections on Taiwan's actions toward China and China's actions toward Taiwan are both displayed in the table. The findings based on these results are as follows.

**Table 4-4.** Estimates of Election Variables in the VAR Model

Dep. Variable Ind. Var.	China's actions toward Taiwan		Taiwan's actions toward China	
	1/1/1990- 6/30/1995	7/1/1995- 12/31/2004	1/1/1990- 6/30/1995	7/1/1995- 12/31/2004
<b>Presidential Elections</b>	-0.000114† (0.000060)	0.000224* (0.000090)	0.000073 (0.000068)	0.000145* (0.000059)
<b>Parliamentary Elections</b>	0.000076 (0.000105)	-0.000083 (0.000127)	0.000461*** (0.000121)	0.000121 (0.000082)

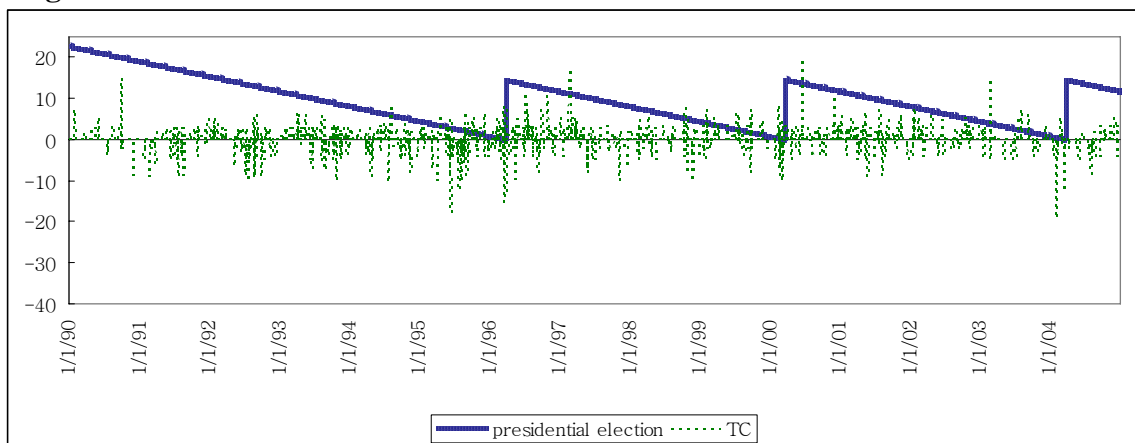
Note: 1. Values in parentheses are standard errors. 2. \*\*\* p<.001; \* p<.05; † p< .10.

**Figure 4-3. Presidential Elections and China's Actions Toward Taiwan**



Note: The unit of China's actions toward Taiwan (CT) is a cooperation (or conflict) score of 1.0; the unit of presidential election is 100 days.

**Figure 4-4. Presidential Elections and Taiwan's Actions Toward China**



Note: The unit of Taiwan's actions toward China (TC) is a cooperation (or conflict) score of 1.0; the unit of presidential election is 100 days.

First, at first glance the effect of presidential elections seems to be significant on China's actions toward Taiwan in the first period because the coefficient (-0.000114) is

significant at the 0.10 level. But since no popular presidential election was held in Taiwan during that period, this effect does not come from presidential elections per se. Instead, we can treat the variable of presidential elections as a downward time trend throughout the first period. This time trend is shown in both Figure 4-3 and Figure 4-4.<sup>72</sup> The negative sign of the coefficient means that during the first period, the earlier the time, the more conflictual China's actions toward Taiwan would be; but as time went by, China's actions toward Taiwan became more and more cooperative. Then, the coefficient -0.000114 means when the end of the first period was one more day away, China's actions toward Taiwan would decrease in cooperation score by 0.000114 (or increase conflict score by 0.000114). In other words, when the first period's end was one day closer, China's actions toward Taiwan would increase the cooperation score by 0.000114. This effect of the downward time trend is sensible because during the first period of time China's policy toward Taiwan was generally moving in a more and more cooperative direction. Particularly, as days went by, China engaged in more dialogues with Taiwan and exercised more conciliatory policies that attempted to encourage the expansion of Taiwan's exchanges with the mainland. But as we all know, this effect was disrupted when China reacted to President Lee's U.S. tour with violent missile tests against Taiwan in the summer of 1995.

Second, the effect of presidential elections was not significant on Taiwan's actions toward China (the coefficient is 0.000073) during the first period. This is a reasonable result because Taiwan held no popular presidential election during this period. The insignificant coefficient also suggests the effect of the downward time trend was not substantial either. This does not mean Taiwan initiated no cooperative actions toward China as time went by. Instead, it indicates that while Taiwan still maintained

---

<sup>72</sup> Figure 4-3 to Figure 4-6 are based on the data that are used for the VAR time-series analysis.

cooperative actions toward China, its conflictual actions toward China also appeared more and more frequently since 1993, such as the U.N. bid and other diplomatic actions. In addition, Taiwan's criticism of China over the 1994 Thousand Island (or Qiandao) Lake Incident also constituted a significant part of these conflictual actions.<sup>73</sup>

Third, during the second period, presidential elections had a significant effect on China's actions toward Taiwan. The coefficient (0.000224) is significant at the level of 0.05. Its positive sign means when presidential elections were further away, China's actions toward Taiwan were more cooperative or friendly. The other side of this meaning is that China's actions toward Taiwan turned more unfriendly as a presidential election neared in Taiwan. In this sense, the coefficient 0.000224 means that when a presidential election was one more day away, China would increase its cooperation score of 0.000224 in its actions toward Taiwan. In other words, as a presidential election was one day closer, China would reduce a cooperation score of 0.000224 in its actions against Taiwan.

Fourth, during the second period the effect of presidential elections was also significant on Taiwan's actions toward China. The coefficient (0.000145) is significant at the level of 0.05. Similarly, this positive coefficient means when a presidential election was one more day away, the cooperation score of Taiwan's actions toward China would increase 0.000145. Specifically, as a presidential election was one day closer, a cooperation score decrease of 0.000145 would occur in Taiwan's actions toward China. This means that when a presidential election was nearing, Taiwan's actions toward China would turn less and less cooperative, or more and more conflictual.

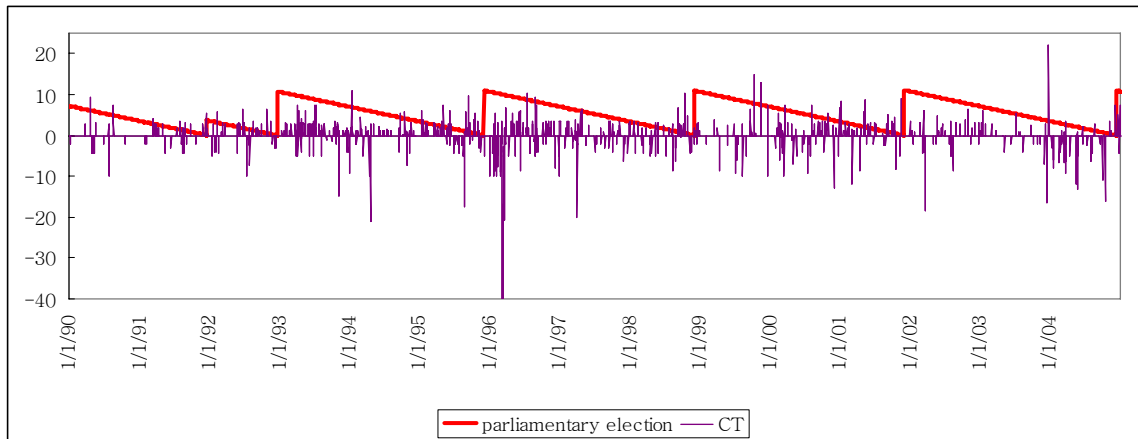
Fifth, the effect of parliamentary elections was not significant on China's actions toward Taiwan during both the first period (the coefficient is 0.000076) and the second

---

<sup>73</sup> On March 31, 1994, 24 Taiwanese passengers were killed on a ferryboat in the Thousand Island Lake in China. In the following months, the Taiwan government strongly criticized China's poor management of the incident.

period (the coefficient is -0.000083) [See Figure 4-5 for the effect of parliamentary elections on China's actions toward Taiwan].<sup>74</sup>

**Figure 4-5. Parliamentary Elections and China's Actions Toward Taiwan**



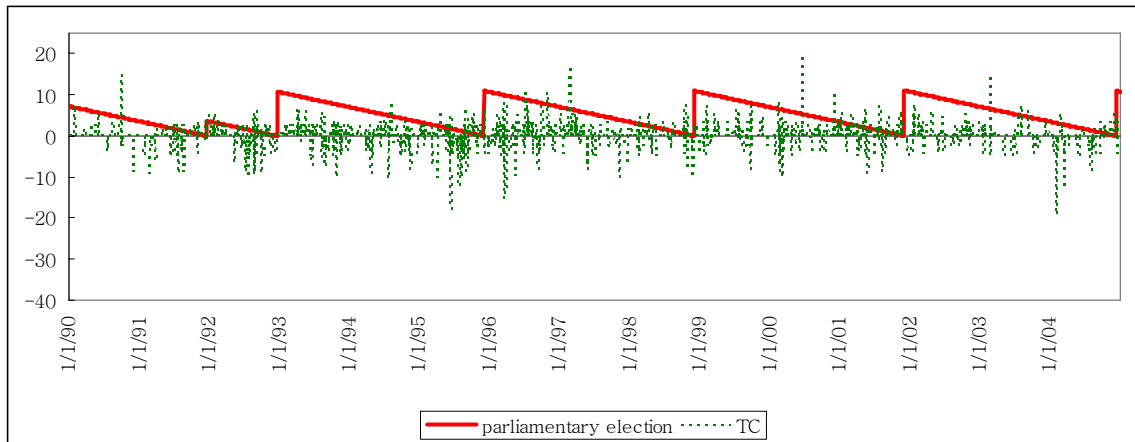
Note: The unit of China's actions toward Taiwan (CT) is a cooperation (or conflict) score of 1.0; the unit of parliamentary election is 100 days.

Sixth, the effect of parliamentary elections was significant on Taiwan's actions toward China during the first period since the coefficient (0.000461) is significant at the level of 0.001. This means when a Legislative Yuan election or a National Assembly election was one more day away, the cooperation score of Taiwan's actions toward China would increase by 0.000461. Or, conversely, as a parliamentary election was one day closer, the cooperation score of Taiwan's actions toward China would decrease by 0.000461.

<sup>74</sup> Figure 4-5 shows that, unlike the case of presidential elections, during which China tended to act belligerently toward Taiwan prior to elections (see Figure 4-3), China's conflictual actions toward Taiwan were generally less frequent and less intense shortly before parliamentary elections. This also shows that China cared about the election of Taiwan's leader more than that of parliamentary members.

Seventh, during the second period the effect of parliamentary elections were insignificant on Taiwan's actions toward China (the coefficient is 0.000121) [See Figure 4-6 for the effect of parliamentary elections on Taiwan's actions toward China].

**Figure 4-6.** Parliamentary Elections and Taiwan's Actions Toward China



Note: The unit of Taiwan's actions toward China (TC) is a cooperation (or conflict) score of 1.0; the unit of parliamentary election is 100 days.

Two conclusions can be drawn from the above findings. First, the approaching of Taiwan's popular presidential elections switched China's actions toward Taiwan onto a conflictual track. One can argue that Taiwan's elections would have nothing to do with China. But because a presidential election was the election to select Taiwan's ultimate leader who had the final say on Taiwan's China policy, China wanted to warn the Taiwanese people against electing a candidate who might promote Taiwan's independence. This is why China's conflictual actions against Taiwan usually occurred on the eve of Taiwan's presidential elections but rarely before parliamentary elections. The most notable instance is the Chinese missile test in March 1996. Figure 4-3 indicates that the intensity of China's conflictual actions against Taiwan was strongest in March



1996. As I mentioned earlier, China's intent was to stop the election of Lee Teng-hui, whose diplomatic actions were regarded by China as the pursuit of Taiwan's independent statehood. Another example is China's verbal warnings before the 2000 presidential election. In February 2000, China issued a white paper that mentioned the conditions for using force against Taiwan. Then China's prime minister, Zhu Rongji, held a press conference in March 2000 to harshly warn against Taiwan-independence. This wave of verbal intimidation was believed to be aimed at preventing the victory of the long-time Taiwan-independence supporter Chen Shui-bian.

Second, and more importantly, the findings also support my argument that Taiwan's actions against China became more conflictual when national elections were looming. Apparently, the fact that politicians tended to campaign for Taiwan independence or other similar issues in national elections had contributed to the occurrence of Taiwan's conflictual actions toward China before the elections. During the first period, such an effect of elections appeared when parliamentary elections approached since the National Assembly election and the Legislative Yuan election were the most important elections at the time. As I have discussed in the case studies, the DPP's campaign for Taiwan independence in the 1991 National Assembly election is the most notable instance.

As for the second period, the results of the VAR analysis show that only presidential elections significantly affected Taiwan's actions toward China. This means presidential elections had replaced parliamentary elections as the major elections in which Taiwanese politicians would launch aggressive campaigns. As I mentioned earlier, the prominent examples showing the effect of presidential elections include President Lee Teng-hui's U.S. tour before the 1996 presidential election, his "state-to-state theory" announcement before the 2000 presidential election, and President Chen Shui-bian's

promotion of the issues of referendum and a new constitution prior to the 2004 presidential election. Considering the effects of presidential elections on both Taiwan's actions toward China and China's actions toward Taiwan, it is fair to conclude that once the direct presidential election was initiated in 1996, presidential elections turned out to be the primary occasions when politicians appealed to rising Taiwanese identity in order to maximize their electoral support. Consequently, the interactions between Taiwan and China had also been subjected to new dynamics that were dominated by Taiwan's presidential elections.

Lastly, I want to discuss the relationship between the rising Taiwanese identity and elections from the perspective of model-specification. I have mentioned that the rise of Taiwanese identity was a driving force for politicians' provocative electoral campaigns in the second period. But the reason I do not include a variable of Taiwanese identity in the VAR model is because the rise and fall of Taiwanese identity per se could hardly affect Taiwan's actions toward China and China's actions toward Taiwan. Instead, the effects of Taiwanese identity were mainly manifested through elections. More specifically, in order to win elections, politicians tended to advocate for the issues that echoed rising Taiwanese identity in elections; but they rarely promoted such issues when elections were still far away, even though the portion of the people who identified themselves as Taiwanese might also be high. Therefore, compared with the rise of people's Taiwanese identity, elections would have a more direct influence on Taiwan's actions toward China and thus China's actions toward Taiwan.

## **CONCLUSION**

Scholars share divergent views with respect to the impact of elections on politicians' foreign policy stances. In this chapter I revisit the debate by examining Taiwan's experiences. I argue that due to the conflict over national identity issues, the

actions that Taiwanese politicians directed toward China would turn conflictual as elections neared. Both the results of case studies and the VAR time-series analysis support my argument.

I conclude the following three points from the discussion in this chapter. First, Taiwan's case indicates that candidates' tendency to campaign for aggressive foreign policies can be rooted in a structural factor, that is, the conflicting national identities that are shared by different groups of elites and people. Because elections serve as a forum for politicians to advertise different ideas, they can also become an occasion to promote a separate national identity or any foreign policy that is based on that identity. Therefore, it would not be uncommon to see conflictual foreign policies emerge in elections.

Second, the incentive mechanism that leads to aggressive campaigns could change according to different circumstances. For the DPP in the early 1990s, when Taiwan's authoritarian regime was still powerful, their campaigns were motivated by the goal of tearing down the KMT and its Chinese identity. Although without wide support from the people, the opposition party still advertised Taiwan independence in elections in the hope of building a Taiwanese identity in voters' minds. At the time, elections were a means for the DPP to promote their opinions and persuade voters. More importantly, they also served as the means the DPP utilized to rally popular pressures against the KMT. But, after the mid-1990s, the provocative campaigns were usually driven by the competition for ballots. As the portion of the voters who had a Taiwanese identity grew, both the KMT and the DPP launched electoral campaigns that emphasized Taiwan's independent status to compete for the ballots of these voters.

Third, as I mentioned in the last chapter, after the mid-1990s Taiwan's conflictual actions toward China were driven by the democratic competition between different political parties, not the failing transition from authoritarianism to democracy. When the

process of Taiwan's democratic transition unfolded, the idea that elections were the only mechanism of political competition also took its root in politicians' minds. Consequently, political parties shared the consensus that maximizing votes to win elections was the only way for them to acquire the power. Therefore, when more and more voters considered themselves Taiwanese and looked forward to Taiwan's full international status, most candidates launched corresponding campaigns in order to attract these voters. As a result, politicians' actions toward China would become conflictual close to elections. This was an outcome brought about by the success of Taiwan's democratization, not its failure.

## **Chapter 5**

### **Cross-Strait Economic Exchanges and Taiwan's Actions Toward China**

#### **INTRODUCTION**

Cross-Strait economic exchanges, which include indirect trade between Taiwan and China and Taiwanese investment in China,<sup>75</sup> have constituted one major facet of the development of cross-Strait relations since 1987. Because these economic activities are occurring between two arch rivals, their effects on cross-Strait political relations are thus worth examining.

Scholars share various opinions about the effects of economic interdependence on interstate conflict. In this chapter I investigate whether or not cross-Strait economic exchanges exercised any influence on Taiwan's conflictual actions toward China. My argument is that although cross-Strait commerce had created pacifying potential, it still did not succeed in restraining Taiwan from directing aggressive actions toward China. To elaborate this argument, I offer an explanation that focuses on the clash between politicians' interests and businessmen's interests. This explanation assumes that Taiwan's leaders seek to maximize their political interests (i.e. winning elections or staying in power), while the Taiwanese businessmen who involve themselves in cross-Strait commercial activities pursue the expansion of their commercial interests. It also assumes that the policy preferences of the leaders and the businessmen would be those that maximize their respective interests. Thus, a conflict of interests would occur when

---

<sup>75</sup> For the reason of national security, Taiwan's government does not allow direct trade between Taiwan and China. Consequently, trade activities across the Strait are conducted through Hong Kong. Any direct Chinese investment in Taiwan is not allowed by the Taiwan government either.

launching aggressive actions toward China could increase the leaders' chance of winning elections, while keeping a peaceful China policy could secure the businessmen's commercial prospects.

Nonetheless, because of some specific conditions, the leaders' preference for taking conflictual actions toward China can still override the businessmen's fondness for a friendly China policy. In President Lee Teng-hui's case, it was his strong-man status that insulated him from businessmen's influences. In President Chen Shui-bian's case, it was DPP party activists' potential for expanding his electoral support that reinforced his inattention to businessmen's policy preferences.

To support my argument that cross-Strait commerce exercised no significant effect on containing Taiwan's conflictual actions toward China, I will present the results of the VAR time-series analysis as evidence.

In the following, I will begin by reviewing a few studies which research the effects of interdependence on interstate conflict. The next section describes the development of cross-Strait economic exchanges, which is followed by my explanation regarding why cross-Strait commerce was inefficient in stopping Taiwan's conflictual actions toward China. Then, to show that the businessmen who were involved in cross-Strait economic exchanges were an implicit pacifying power, I am going to lay out the preferences they shared with regard to Taiwan's China policy. In the section that follows, I will elaborate my explanation that I presented earlier. Then I discuss the results of the VAR analysis. The last section is the conclusion.

## **ECONOMIC INTERDEPENDENCE AND INTERSTATE CONFLICT**

Whether or not interstate economic interactions bring about peace is a hotly debated question among scholars. For example, the tradition of commercial liberalism claims that economic exchanges can lead to peace and cooperation because trade will

produce interdependence among states, and interdependence will create shared interests that make the use of force a costly option for solving disputes (Polachek 1980; Oneal and Russett 1997, 1999). Other scholars assert that economic interdependence can send costly signals to demonstrate the resolve of states. Since these costly signals could reveal states' intentions, they would reduce uncertainty and therefore the probability of fighting between states (Gartzke, Li, and Boehmer 2001; Gartzke and Li 2003).

Contrary to this view, some people disagree that interstate economic interdependence can lead to peace. For example, Gowa and Mansfield (1993) argue that trade with an adversary produces a security diseconomy and thus cannot promote peace between rival states. Barbieri (1996) argues that it is not interdependence itself that determines the impact on interstate relations, but some characteristic of the type of interdependence present in the relationship, such as contiguity and joint democracy.

Taiwan-China relations are an interesting case to test against these different views because military conflict has never occurred between the two countries since they established close economic ties. In addition, the cross-Strait détente in the early 1990s seemed to be accompanied by the growth of such interdependence. However, it is undeniable that, particularly after the mid-1990s, some non-military disputes and tensions still arose between Taiwan and China even though cross-Strait economic exchanges continued to grow steadily. In this chapter I attempt to explain why cross-Strait commerce failed to stop Taiwan's conflictual actions toward China even though it had the potential to do so.<sup>76</sup>

---

<sup>76</sup> Occurrence of wars tends to be the dependent variable in most studies of the literature (Mansfield and Pollins 2003: 16). Unlike those studies, this analysis discusses the effects of interdependence on various *non-military conflicts* rather than on wars or military disputes. This is because there has been no military dispute across the Taiwan Strait since the mid-1960s.

The only work mentioning the connection between cross-Strait commerce and cross-Strait peace/conflict is Tung's work (2002). This study spends some time describing how Taiwanese businessmen reacted to both Beijing and Taipei after the 1995 and 1996 missile crises, but it still lacks a systematic explanation on how cross-Strait economic activities are linked to the peace and conflict between Taiwan and China. This chapter thus tries to contribute to this under-explored subject by studying the impact (or lack thereof) of cross-Strait economic interdependence on Taiwan's actions toward China. I will start by reviewing the development of cross-Strait economic exchanges.

### **GROWING CROSS-STRAIT ECONOMIC EXCHANGES**

Among all cross-Strait economic activities, indirect trade occurred at an earlier time than Taiwanese investment in China. Taiwan loosened the restrictions on its indirect trade with China in 1984 (Mainland Affairs Council 1997: 171), but greater liberalization appeared in the late 1980s when the Taiwan government lifted the ban on visiting China. Since then, the amount of indirect trade has grown steadily. For example, Table 5-1 and Table 5-2 (Figure 5-1 and Figure 5-2 as well) show that in the period between 1989 and 2004 an apparent surging trend occurred in the amount of importation from China to Taiwan as well as that of exportation from Taiwan to China (although this trend is much less obvious in the figures from Hong Kong's customs). According to Taiwan's customs, imports from China were only 597.5 million US dollars in 1991, but by 2004 this number had become 16.7 billion US dollars. As for the amount of exports to China, this was only 1.1 million US dollars in 1992, but rose to 34.05 billion US dollars in 2004.<sup>77</sup>

---

<sup>77</sup> The reason the data varies between the customs figures of Hong Kong, Taiwan and China might be caused by the fact that the indirect trade between Taiwan and China via Hong Kong is conducted several different ways. Sometimes goods are shipped into the Hong Kong port and customs before being transferred, other times they are transferred onto other cargo vessels in the Hong Kong sea area without entering into the Hong Kong port and customs. Still other times, goods are exported from Taiwan to Hong Kong and then transferred to surface transportation to China so that Hong Kong's customs can only have import records but no export ones. See Leng 1996: 21- 22.



**Table 5-1.** Amount of Importation from Mainland China to Taiwan  
(Unit: Million US\$)

<b>Period</b>	<b>Imports H</b>	<b>Imports T</b>	<b>Imports C</b>	<b>Imports M</b>
1989	586.9	—	—	586.9
1990	765.4	—	319.7	765.4
1991	1,126.0	597.5	594.8	1,125.9
1992	1,119.0	747.1	698.0	1,119.0
1993	1,103.6	1,015.5	1,461.8	1,103.6
1994	1,292.3	1,858.7	2,242.2	1,858.7
1995	1,574.2	3,091.4	3,098.1	3,091.4
1996	1,582.4	3,059.8	2,802.7	3,059.8
1997	1,743.8	3,915.4	3,396.5	3,915.4
1998	1,654.9	4,110.5	3,869.6	4,110.5
1999	1,628.1	4,522.2	3,951.7	4,522.2
2000	1,980.5	6,223.3	4,994.9	6,223.3
2001	1,693.3	5,902.2	5,000.2	5,902.2
2002	1,708.1	7,947.7	6,585.9	7,947.7
2003	2,161.1	10,960.5	9,004.7	10,962.0
2004	2,485.4	16,681.6	13,545.2	16,678.7

Source: *Cross-Strait Economic Statistics Monthly*, February 2005, No. 148.

Note: H means the data is from Hong Kong's customs, T from Taiwan's, C from China's, and M from Taiwan's Mainland Affairs Council. \*Imports T and Imports M are the same since 1994.

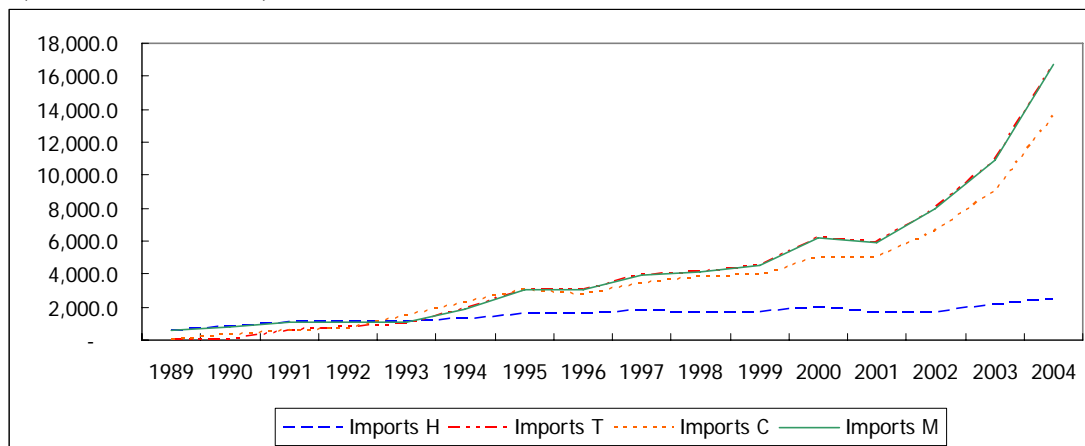
**Table 5-2.** Amount of Exportation from Taiwan to Mainland China  
(Unit: Million US\$)

<b>Period</b>	<b>Exports H</b>	<b>Exports T</b>	<b>Exports C</b>	<b>Exports M</b>
1989	2,896.5	—	—	3,331.9
1990	3,278.3	—	2,255.0	4,394.6
1991	4,667.2	—	3,639.0	7,493.5
1992	6,287.9	1.1	5,881.0	10,547.6
1993	7,585.4	16.2	12,933.1	13,993.1
1994	8,517.2	131.6	14,084.8	16,022.5
1995	9,882.8	376.6	14,783.9	19,433.8
1996	9,717.6	623.4	16,182.2	20,727.3
1997	9,715.1	626.5	16,441.7	22,455.2
1998	8,364.1	834.7	16,629.6	19,840.9
1999	8,174.9	2,536.9	19,537.5	21,312.5
2000	9,593.1	4,217.5	25,497.1	25,009.9
2001	8,811.5	4,745.4	27,339.4	21,945.7
2002	10,311.8	9,945.0	38,063.1	29,465.0
2003	11,789.4	21,417.3	49,362.3	35,357.7
2004	14,761.9	34,046.7	64,778.6	44,960.4

Source: *Cross-Strait Economic Statistics Monthly*, February 2005, No. 148.

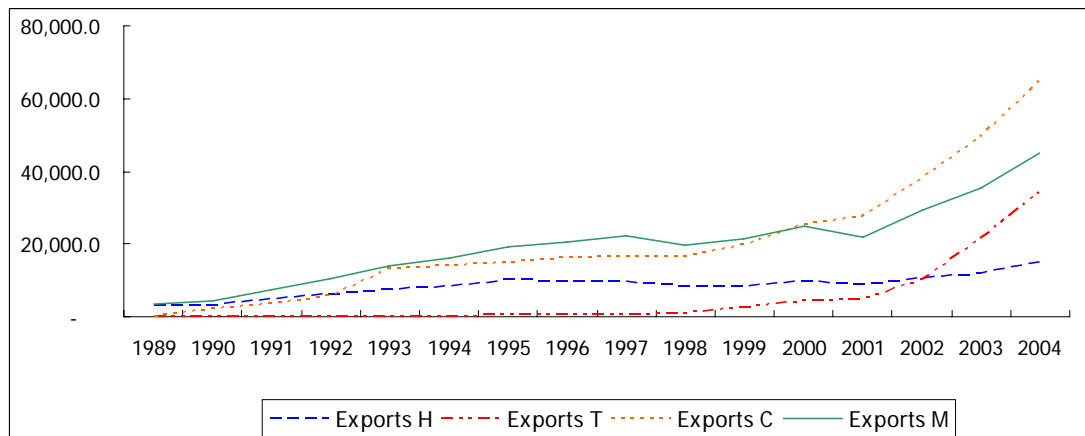
Note: H means the data is from Hong Kong's customs, T from Taiwan's, C from China's, and M from Taiwan's Mainland Affairs Council.

**Figure 5-1.** Amount of Importation from Mainland China to Taiwan  
(Unit: Million US\$)



Source: Same as Table 5-1.

**Figure 5-2.** Amount of Exportation from Taiwan to Mainland China  
(Unit: Million US\$)



Source: Same as Table 5-2.

On the other hand, the Taiwanese capital investment in China has also expanded in a zigzag way since the early 1990s. China started to move toward a market economy after Deng Xiaoping launched the historical economic reforms in the late 1970s. Directed by Deng's guidelines of "reform and openness," China took substantial measures to attract foreign capital from all over the world into its burgeoning market economy, including from Taiwan. In July 1988, China's State Council launched a policy to encourage investment from Taiwanese businessmen, but Taiwan's ban on mainland investment was not removed until October 1990 (Mainland Affairs Council 1997: 173). After that, as the official data from both Taiwan and China in Table 5-3 and Figure 5-3 show, the amount of Taiwanese investment increased between 1991 and 2004, although with some ups and downs in the 1990s. For example, according to Taiwan's official records, the amount was 174.16 million US dollars in 1991 and 6.9 billion US dollars in 2004. China's data show that this number is 2.8 billion US dollars in 1991 and 9.3 billion US dollars in 2004.<sup>78</sup>

One notable fact regarding cross-Straits economic activities is the close link between indirect trade and Taiwanese investment in China. As Tung says, Taiwan-invested enterprises in mainland China play a major role in importing materials, machinery, parts, semi-manufactured goods and capital goods from Taiwan. "In the mid-1990s, around one-third to two-thirds of Taiwan's exports to China were driven by these Taiwan-invested enterprises (2003: 6)." Therefore, the growth of indirect trade across the Straits is partly reinforced by Taiwanese businessmen's investment in the mainland.

---

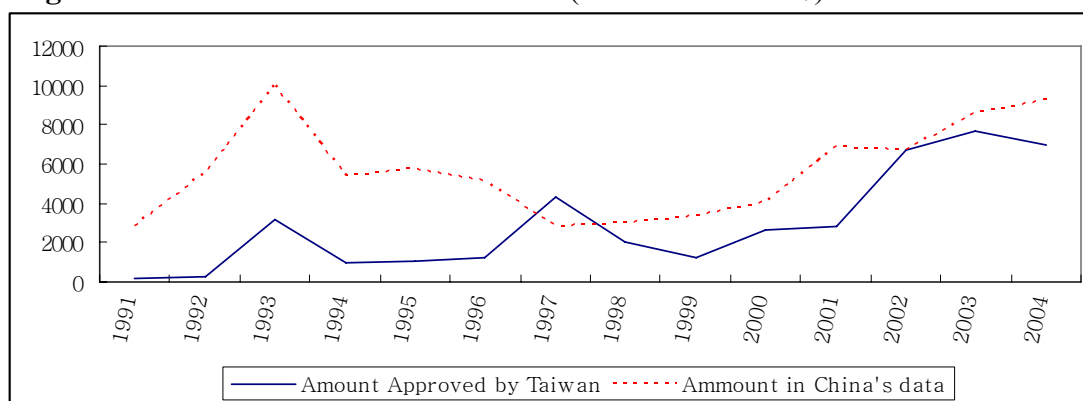
<sup>78</sup> Both Taiwan's and China's official data show a general escalation in the amount of Taiwan's investment in China. But it should be pointed out that the figures from Taiwan's data on mainland investment are in fact substantially underestimated and consequently lower than those from China's. This is because many Taiwanese businessmen conduct their investment without the Taiwan government's approval, or they just report lower-than-actual amounts to the government. See Leng 1996: 23.

**Table 5-3.** Taiwan's Investment in China (Unit: Million US\$)

Period	Amount Approved by Ministry of Economic Affairs, Taiwan	Contracted Amount from China's Official Data
1991	174.16	2,783.00
1992	246.99	5,543.00
1993	3,168.42	9,965.00
1994	962.21	5,395.00
1995	1,092.71	5,777.00
1996	1,229.24	5,141.00
1997	4,334.31	2,814.00
1998	2,034.62	2,982.00
1999	1,252.78	3,374.44
2000	2,607.14	4,041.89
2001	2,784.15	6,914.19
2002	6,723.06	6,740.84
2003	7,698.78	8,557.87
2004	6,940.66	9,305.94

Source: *Cross-Strait Economic Statistics Monthly*, February 2005, No. 148.

**Figure 5-3.** Taiwan's Investment in China (Unit: Million US\$)



Source: Same as Table 5-3.

The above introduction shows that cross-Strait economic exchanges have been growing since the late 1980s. This raises the question of whether or not the conflictual level in Taiwan's actions toward China has also decreased accordingly. I will discuss this question in the following section.

### **POLITICAL INTERESTS VS. COMMERCIAL INTERESTS**

Although the Taiwan government would sometimes slow down the pace of the island's economic exchanges with mainland China, cross-Strait commerce has hardly been the source of cross-Strait tensions when compared with Taiwan's national identity issues. On the one hand, no dispute about trade or mainland investment issues ever occurred between Taiwan and China after cross-Strait exchanges were initiated. On the other hand, the two countries have never argued about the distribution of economic gains either.<sup>79</sup>

But, cross-Strait economic exchanges have exercised little effect in containing Taiwan's conflictual actions toward China as well. Even though the amount of Taiwan's trade with China and mainland investment continued to grow after the mid-1990s, as I mentioned in Chapter 3, during the period from July 1, 1995 to December 31, 2004 Taiwan's conflictual actions toward China in fact occurred at a more frequent rate than those in the period from January 1, 1990 to June 30, 1995. Following Mansfield and Pollins' (2001: 843) suggestion that "[m]ore attention needs to be focused on exactly how interdependence interacts with domestic institutions, leaders' preferences, and the interests of societal actors to influence interstate violence," I argue that the failure of cross-Strait commerce to restrain Taiwan's aggressive behaviors is associated with the

---

<sup>79</sup> As Mansfield and Pollins (2003: 3) mention, some scholars claim that the distribution of the gains from trade can increase the probability of conflict by shifting interstate power relations.

fact that the political interests of Taiwan's presidents had always overwhelmed the commercial interests of businessmen who rely mainly on cross-Strait trade or mainland investment for profits.

Economic exchanges across the Taiwan Strait considerably affect the commercial interests of a group of actors, that is, the Taiwanese businessmen who involve themselves in the exchanges. Thus, in addition to politicians, the Taiwanese business community is also an important actor this analysis should pay attention to.

Both politicians and businessmen have their own interests. These interests, in turn, determine their preferences about a specific policy. In Taiwan, the president is the ultimate decision maker in the creation of Taiwan's China policy. His goal is to maximize his own political interests, i.e. staying in power or winning elections. Therefore, the best China policy option for him would be the one that would best serve this goal. Taiwanese businessmen, on the other hand, are participants in the market of cross-Strait commerce. Their shared goal is to maximize the commercial interests they can catch in the market. Therefore, their preferences about Taiwan's China policy would be those that could secure their commercial interests, such as greater liberalization of cross-Strait economic exchanges or any political actions that would not disturb the market. In other words, they prefer that Taiwan's China policy remain friendly or peaceful.

Apparently, the fact that Taiwan's conflictual behaviors toward China appeared more and more frequently means these businessmen's preferences for a peaceful China policy had failed to prevail. Why?

I argue that one important factor is the president's concerns about his political interests. As I mentioned in Chapter 4, when national elections became a regular competition between political parties in Taiwan and when the Taiwanese identity grew

stronger among the electorate, the desire to win elections (particularly presidential elections) would drive politicians to campaign on the issues that highlighted Taiwan's independent status. In other words, in order to maximize their political interests, i.e. maximizing the probability of winning elections, Taiwanese politicians were inclined to take actions that were at odds with the business community's policy preferences.

The president's autonomy plays a role here. Both President Lee Teng-hui and President Chen Shui-bian had built a close relationship with the business community when they were both weak at the early stage of their presidency. But eventually both of them could still take conflictual actions toward China without caring about businessmen's preferences. For Lee, he was able to insulate himself from businessmen's influences later when he consolidated his power within the KMT and reached the strong-man status around 1993. Therefore, when he decided to launch aggressive campaigns against China, businessmen's preferences were never his concern. As for Chen, the fact that he was relatively weak all the time eventually forced him to switch his alliance partner from the business community to those who could build up his electoral support, i.e. the DPP party activists who support Taiwan's independence.<sup>80</sup> So, businessmen's preference for a peaceful China policy was ignored as a result.

Before I elaborate why the Taiwanese business community did not succeed in stopping politicians' aggressive actions toward China, I will explain the reason why these businessmen would constitute a pacifying power.

### **BUSINESS COMMUNITY'S POLICY PREFERENCES**

I argue that one key to understanding the effect of cross-Strait economic exchanges is the business community which is involved in the commercial activities

---

<sup>80</sup> As I will discuss later, Lin (2005: 25) points out the specific role that party activists play in candidates' position-taking in Taiwan's 2004 presidential election.



between Taiwan and China. Economic exchanges across the Taiwan Strait do generate the potential to restrain Taiwan's confrontational actions toward China. This potential is created through the economic interests that have been produced by cross-Strait economic interactions. More specifically, the growth of cross-Strait economic interdependence has fostered a group of Taiwanese businessmen who make their profits from the commercial activities between Taiwan and China. As the interests of this group of businessmen rest not only on the greater liberalization of cross-Strait economic exchanges but also a peaceful relationship between Taiwan and China, the China policy options that these businessmen preferred were essentially friendly or peaceful ones, that is, the expansion of Taiwan's economic ties with China and the continuation of peace across the Taiwan Strait.

### ***Winners of Cross-Strait Commerce***

Businesses go wherever they can make money. One major incentive that drives Taiwanese businessmen into cross-Strait commercial activities comes from the cheap cost of labor, raw materials, and land in China, as well as the Chinese government's low standards of environmental protection. Particularly when the rising prices of the above factors and the awakening consciousness of environmental protection are causing the costs of production continue to grow in Taiwan, trading with or investing in China has appeared to be a much more advantageous option for businessmen. Hence, businessmen are the winners in the liberalization of cross-Strait economic exchanges.

The literature of international political economy has told us that both winners and losers in the internationalization of trade and investment will always pursue opposite policies to safeguard their respective interests (Gourevitch 1977, 1986; Rogowski 1987; Milner 1987, 1988; Frieden 1991; Shafer 1994; Trubowitz 1992, 1998). In Taiwan, because the losers in cross-Strait commerce are mainly a minority group of resourceless

low-skilled workers who were unemployed after their bosses shut down factories and moved capital and machinery to mainland China, the voices as well as potential influences of the winners, who are resourceful business owners, always overwhelmed those of the losers. These winners are generally composed of the owners of small and medium-sized enterprises and those of big businesses. Although these two groups of owners are different in terms of the scale of their businesses, they share the following two major expectations or policy preferences with regard to cross-Strait economic exchanges.

### ***Preference for Greater Liberalization of Cross-Strait Commerce***

The Taiwanese business community's first policy preference is the faster and greater liberalization of cross-Strait exchanges, especially Taiwan government's permission for more mainland investment projects and exportation/importation items as well as direct transportation links across the Strait.<sup>81</sup>

Businessmen have consistently demanded the Taiwan government remove its restrictions on cross-Strait commercial activities. For example, as early as 1991, the Council for Industrial and Commercial Development R.O.C., a chamber of commerce whose members include owners of major enterprises in Taiwan, released a statement that advised the government to acknowledge the inevitable trend of cross-Strait commerce because they thought Taiwan was too small to become a market with economy of scale.<sup>82</sup> Later on, after President Lee Teng-hui announced the "no hast, be patient" policy in September 1996 to limit mainland investment, the business community continued to

---

<sup>81</sup> Under the regulation of *Statutes Governing Relations between Peoples of the Taiwan Area and the Mainland Area*, Taiwan's Ministry of Economic Affairs divides businessmen's mainland investment projects into those on the permitted list, the prohibited list, and special cases. In terms of exportation and importation of goods, the Ministry initially also made a "positive list" of those that could be traded between Taiwan and China and banned those that were not on the list.

<sup>82</sup> According to the statement, other countries' experiences show that a market needs a population of 70 million people to achieve its economy of scale, but Taiwan has only 20 million people. See *Economic Daily News*, December 8, 1991, p. 5.

request the removal of governmental controls. For example, Wang Yung-ching, the president of the Formosa Plastics Group, Taiwan's leading business in the plastics and petrochemical industries, said that Taiwan could never exclude itself from the Chinese market. He criticized any interference with cross-Strait commerce by the Taiwan government, saying it would only stop Taiwan from reaping opportunities in China.<sup>83</sup>

For the business community, another major concern with respect to cross-Strait exchanges is the direct links between Taiwan and China. Direct transportation of goods and people is not allowed by the Taiwan government. Consequently, Taiwanese businessmen have to pay extra costs in both time and money to travel and to ship goods between Taiwan and China via a third country or area, which in most cases is Hong Kong. According to an official assessment (Executive Yuan 2003: 5), the opening of direct sea transportation could save around 820 million NT dollars (about 25.63 million US dollars) in shipping costs per year and would cut shipping times in half. In addition, the opening of direct air transportation could save around 13.2 billion NT dollars (about 412.5 million US dollars) for cross-Strait travelers and cut a total of 8.6 million hours of travel time per year. Meanwhile, direct air transportation also saves around 810 million NT dollars (about 25.3 million US dollars) in shipping goods across the Strait. In addition, for individual businesses, direct sea and air links would reduce their shipping costs by around 15 to 30%.

As a result, since the mid-1990s the Taiwanese business community has consistently demanded their government lift the ban on direct transportation links. For example, surveys in both 1996 and 1998 show that the opening of direct links is one of the policy priorities that many Taiwan-invested enterprises in mainland China would

---

<sup>83</sup> Ibid., October 16, 1997, p. 3.

suggest the Taiwan government undertake.<sup>84</sup> In 2001, in their meetings with governmental officials, some businessmen from central, southern, and eastern Taiwan also asked the government to lift the ban on cross-Straits direct transportation.<sup>85</sup> Big enterprises expected the government to open direct links too. For example, Chang Jung-fa, the owner of the Evergreen Marine Corp and Eva Airways Corp and a famous Taiwanese business leader, said in October 1997 that the government should speed up the opening of direct transportation.<sup>86</sup> Another business leader, Formosa Group's Wang Yung-ching, also said in 2002 that Taiwan needed to open up cross-Straits direct links. "Without direct links, Taiwan will get disadvantaged in all respects," he concluded.<sup>87</sup>

### ***Preference for Peace***

Taiwanese businessmen's second expectation or policy preference is for peace in cross-Straits relations. Military conflicts are the greatest threat to commercial activities because they not only disrupt international trade and raise the transaction costs but also speed up capital outflows and stop inflows. Therefore, the thing that worries Taiwanese businessmen the most is any crisis occurring that might escalate into a cross-Straits war. The two series of Chinese missile tests against Taiwan in the mid-1990s illustrate the negative impact of cross-Straits tensions on Taiwanese businessmen.

---

<sup>84</sup> The surveys are conducted by the Chinese National Federation of Industries, a major industrial business association in Taiwan, on sampled Taiwan-invested enterprises in mainland China. For the 1996 survey results, see *United Daily News*, February 27, p. 9. For the 1998 results, see the website of the Chinese National Federation of Industries (<http://www.cnfi.org.tw/cnfi/ml9807.htm>).

<sup>85</sup> The purpose of these meetings was to survey the opinions of local businessmen before the Economic Development Advisory Conference was held in August, 2001. *Economic Daily News*, August 6, 2001, p. 2.

<sup>86</sup> According to one high-ranking official of the Evergreen Group, Chang said this because he saw many Taiwanese customers of Evergreen Marine and Eva Airway wasting their time and money to ship or travel through a third area. *Ibid.*, October 16, 1997, p. 3.

<sup>87</sup> *Ibid.*, May 17, 2002, p. 1.

Right after the July/August 1995 missile crisis, many Taiwanese businessmen in Chinese coastal areas complained that the missile tests had caused not only the loss of many contracts but also many local workers who tried to escape from the possible cross-Strait military conflict.<sup>88</sup> Similar harm to Taiwanese businesses again occurred when the missile tests were resumed in March 1996. For example, according to the president of Beijing's Taiwanese Businessmen's Association, many factories in Taiwan were forced to stop their operation because the supply of raw materials from China to Taiwan was interrupted by the missile tests. As a result, the operation of Taiwanese factories in China was also affected since no semi-manufactured goods could be exported from Taiwan to China either.<sup>89</sup> In addition, because coastal regions were mostly threatened by the missile tests, Taiwan-invested enterprises in these regions suffered large losses as many of their foreign customers canceled or postponed their orders from these enterprises.<sup>90</sup>

Since cross-Strait tensions are harmful to their business, the Taiwanese business community shares the common expectation that cross-Strait relations should be kept peaceful, and that Taiwan should make an effort to take friendly rather than provocative actions toward China. For example, in 1992 some owners of Taiwan-invested enterprises were worried about the cross-Strait tensions caused by the fact that a few Taiwanese politicians were campaigning under a "one China, one Taiwan" slogan, that suggests Taiwan-independence, in the legislative election.<sup>91</sup>

---

<sup>88</sup> The officials from Taiwanese Businessmen's Associations from different Chinese cities made these complaints when meeting with the officials from China's Taiwan Affairs Office of the State Council in Beijing on September 1, 1995. See Tung, 2002: 14.

<sup>89</sup> Ibid., p. 16.

<sup>90</sup> Ibid., p. 17.

<sup>91</sup> One businessman said that they always needed a stable political environment to reduce the risks of investment. Another said he would oppose "one China, one Taiwan" if it means Taiwan-independence because that would only cause tensions across the Strait and make mainland investments impossible. Another mentioned that the rising opinion of Taiwan-independence would just deepen China's suspicion

After China's 1995 missile tests, the president of the Taiwanese Businessmen's Association in Guangdong Province's Dongguan said that all Taiwanese businessmen hoped both Taiwan and China could resolve their disputes peacefully, while the president of Shantou's Taiwanese Businessmen's Association (which is also in Guangdong Province) said the two countries should stop provoking each other and instead develop a peaceful relationship.<sup>92</sup> In the spring of 1996, a survey by the Chinese National Federation of Industries (which is a major industrial business association in Taiwan) showed that many Taiwan-invested enterprises hoped the talks between Taiwan and China could be resumed so that their interests would be secured by the healthy development of cross-Straits relations.<sup>93</sup> At about the same time, in a meeting with Taiwan's mainland affairs officials, some Taiwanese businessmen suggested that Taiwan should be calm, rational, and avoid any verbal provocation of China.<sup>94</sup> In sum, Taiwanese businessmen wished that Taiwan's behaviors toward China would be friendly and peaceful in general.

#### **INEFFECTIVENESS OF BUSINESSMEN'S INFLUENCES**

Nevertheless, as I mentioned earlier, these businessmen's preferences for a friendly or peaceful China policy did not prevail, particularly after the mid-1990s. This means the business community was ineffective in realizing their pacifying power. Several factors can explain why this happened. For example, Taiwanese businessmen are generally inactive on specific cross-Straits political issues (such as those of unification vs.

---

about Taiwan, which was not what businessmen liked to see. These businessmen's opinions are from *United Daily News*, October 16, 1992, p. 10.

<sup>92</sup> Ibid., September 29, 1995, p. 10.

<sup>93</sup> Ibid., February 27, 1996, p. 9.

<sup>94</sup> For example, the officials of Zhangzhou's (in Fujian Province) and Guangzhou's (in Guangdong Province) Taiwanese Businessmen's Associations both said that the Taiwanese leader should not irritate China. Ibid., February 28, 1996, p. 2.

independence)<sup>95</sup> because their primary concern is commercial interests rather than politics and because they attempt to keep a good relationship with different political forces (so that their commercial interests would be secured no matter which political party is in power) by avoiding any possible offense against politicians.<sup>96</sup> In addition, businessmen also lack official access to participate in the making of China policy, particularly purely political policies.<sup>97</sup> Furthermore, although Taiwanese businessmen were usually outspoken on cross-Straits economic policy and able to express their relevant preferences through several channels,<sup>98</sup> including business leaders' personal

---

<sup>95</sup> However, there are a few exceptions. One notable example is Shi Wen-lung, the boss of a leading petrochemical firm Chi Mei. Shi is widely known for his position of supporting Taiwan-independence. See *China Times*, March 11, 2000, (page unknown).

<sup>96</sup> The following examples show that business interests, not politics, are the foremost concerns for Taiwanese businessmen. First, as the pro-independence slogan "one China, one Taiwan" appeared on the eve of the 1992 legislative election, a mainland-based Taiwanese businessman complained that "Doing business is the most important thing in businessmen's everyday life, but politicians tend to repeatedly discuss those political questions that have no immediate answers." See *United Daily News*, October 16, 1992, p. 10. Likewise, after Lee Teng-hui announced his "special state-to-state theory" in July 1999, a local Taiwanese businessman criticized that "Business is the only thing that businessmen care about. ... [Lee's] action is actually nonsense. It is really hard for businessmen to imagine what politicians are thinking of in their heads." Ibid., July 14, 1999, p.2. Another example is, when Chen Shui-bian uttered his "one side, one country" statement in August 2002, the president of Shantou's (in Guangdong province) Taiwanese Businessmen's Association responded that "Most Taiwanese businessmen do not understand what 'one side, one country' really means. For these businessmen, taking good care of their business is their priority. As for politics, they think it is better for them not to touch upon it." See *Economic Daily News*, August 6, 2002, p. 5.

<sup>97</sup> Since the period of the 1950s, the making of political policy toward China has been essentially an issue of national security and usually controlled exclusively by the president himself, sometimes with his close advisors. This tradition was carried on for decades, into the 1990s and even the early 2000s. For example, Lee Teng-hui's "special state-to-state theory" was based on the results of a research conducted by his national security advisory team, while the choice of the time he made this announcement was completely his own decision. See Zou 2001: 222- 230. In the same way, Chen Shui-bian's "four No's" commitment in May 2000 were the results of several rounds of his private discussions, or more precisely, negotiations, with American Institute in Taiwan's (AIT) Taipei Director Raymond Burghardt. The purpose of AIT's discussions with Chen on the "four No's" was to stabilize cross-Straits relations after Chen was elected president in March 2000. See *China Times*, March 22, 2006, p. A5; June 10, 2006, p. A2.

<sup>98</sup> For instance, as the backbone of the mainland-based Taiwanese business community, owners of small and medium-sized enterprises can discuss specific cross-Straits economic issues with the officials of the Taiwan government on many occasions, such as informal meetings held by the Mainland Affairs Council. They can also express their opinions through the presidents of their mainland-based Taiwanese Businessmen's Associations since these presidents usually serve as their representatives. They can even voice through the leaders of major chambers of commerce in Taiwan, such as the Chinese National

communication with the president,<sup>99</sup> their wish to liberalize cross-Straits commerce was always offset by the Taiwan government's concerns about national security as well as economic security.<sup>100</sup>

But, in my opinion, the most important factor came from politicians' intention to maximize their political interests. Just like businessmen's goal is to increase business interests, politicians seek to maximize their interests too, that is, to win elections or to stay in power. This desire subsequently decides their policy positions or preferences. As I have shown in Chapter 4, the institutionalization of electoral competition (especially presidential elections) had made winning elections an ultimate goal for Taiwanese politicians. Thus, when more and more voters shared a Taiwanese identity after the mid-1990s, and when presidential elections became the most important political competition in Taiwan, taking aggressive actions toward China would then be the president's (or presidential candidates') best option to maximize the votes and win the elections.

---

Federation of Industries, the General Chamber of Commerce of the R.O.C., and the National Association of Small and Medium Enterprises R.O.C., as these leaders usually play an advisory role in the government's economic policy-making and keep good personal relationship with high-ranking officials and even the president.

<sup>99</sup> For owners of big business groups, since they are usually regarded as the leaders of Taiwan's business sector, it is not uncommon to see them talk to the presidents personally. For instance, in November 2000 the head of Formosa Plastics Group Wang Yung-ching, along with three other big-business owners, visited Chen Shui-bian in the president's mansion to hold a private discussion with the president on cross-Straits economic issues, including cross-Straits direct links and former president Lee's "no haste, be patient" policy. See *United Daily News*, November 26, 2000, p. 1.

<sup>100</sup> National security has always been the Taiwan government's major concern because China never eradicates its hostility toward Taiwan. For example, in the beginning of the 1990s, Taiwan's intelligence showed that China was trying to "besiege the politics [in Taiwan] through the business and force the [Taiwan] government through the people." See *Economic Daily News*, August 4, 1990, p. 2. Sometimes this strategy is mentioned together with "advance the unification through direct links." Ibid., October 8, 1991, p. 1. Later on, a triad strategy of "blockading Taiwan diplomatically, checking Taiwan militarily, and dragging along Taiwan economically" took shape as the general guidelines of China's Taiwan policy. This strategy was clearly mentioned by Chinese deputy prime minister Qian Qichen in 1993. See Chu 1994: 11. Moreover, when the scale of cross-Straits commercial activities turned larger and larger, Taipei's worries about national security were more specifically reflected in its concerns regarding Taiwan's economic security, such as the increasing dependence of Taiwan's export on the mainland, domestic capital shortages and job losses in Taiwan, and the "hollowing out" of Taiwan's industrial structure that might be caused by the growing mainland investment. See Dent 2001: 3; Bolt 2001: 97; Tung 2003: 137; Deng 2000: 971.



However, neither the president's policy preferences nor the businessmen's could necessarily become a policy in the end. So, what made the president's China policy preferences override the business community's eventually?

The business community was once a close ally for both Lee and Chen at the time when the two presidents were weak. Consequently there used to be a chance that businessmen's preferences could affect the presidents' making of China policies. However, with the support of different conditions, both Lee and Chen were able to keep themselves autonomous from businessmen's influences. I argue that, in Lee Teng-hui's case, it was the status as Taiwan's one-and-only strong leader (which he reached after 1993) that provided him the privilege of making decisions independently. In Chen Shui-bian's case, it was the DPP party activists' capability to expand his electoral support that strengthened his adherence to directing aggressive actions toward China.

As I mentioned in Chapter 3, due to the challenges from the mainlanders, Lee Teng-hui was weak in the KMT shortly after taking power. Thus, he reached out to the business community to build a coalition. Lee not only built a close relationship with businessmen at a personal level but also incorporated members of the business community into the KMT.<sup>101</sup> Even so, Lee was able to ignore businessmen's preferences about cross-Strait issues soon after he consolidated his power within the ruling KMT and became the only strong man in early 1993. Lee's strong-man status was shown in several aspects. First, he enjoyed a high-level of support from the people in Taiwan. For

---

<sup>101</sup> Lee was regarded as the first R.O.C. president who frequently met with businessmen, either on dining tables or golf courses. See *United Daily News*, February 13, 1991, p. 3. As for his political coalition with businessmen, the composition of KMT's party leadership is a good example. When the KMT's 13th party congress was held in 1988, the year Lee succeeded to the presidency and KMT chairmanship, only 55 out of all 1,200 Party Representatives were businessmen. At the same time, six of the Central Committee members were from the business community. In the KMT's 14th party congress that was held in 1993, the time shortly after Hao Pei-tsun resigned from the premiership and Lee just consolidated his power within the KMT, among all 2,100 Party Representatives 187 of them came from the business community, a much higher ratio than that in 1988. In addition, 15 of the Central Committee members were businessmen, also a record-high number (Chang 1999: 69).

example, Lee's approval ratings stayed at a relatively high level since 1993. According to the polls of *United Daily News*, Lee's ratings were between 70% and 83% in the period from early 1993 to May 1996. The lowest point he ever reached was 39% in December 1997, which was caused by the KMT's defeat in the 1997 local election and due to several shocking crimes uncovered that year. From July 1998 to May 1999, his ratings climbed back to a relatively high level from 54% to 66%. In May 2000, the month he stepped down, the rating was 74%.<sup>102</sup>

Second, as Ho and Leng (2004: 737) mention, in March 1996 Lee was elected president in Taiwan's first popular presidential election with a 54% share of the total votes and thus gained a high degree of legitimacy. In addition, Lee's ruling KMT party also held an overwhelming majority in the Legislative Yuan. Furthermore, many members of the opposition party, the DPP, were in fact implicit supporters of Lee. Consequently, even if Taiwan had almost finished the process of democratic transition at the time, Lee actually would have still enjoyed the strong-man position that Chiang Kai-shek and Chiang Ching-kuo had during the authoritarian period. Without a doubt, this strong-man status also granted Lee a commanding position in the making of cross-Strait policies. Therefore, when Lee took aggressive actions toward China to impress voters with his image of defending Taiwan's independent status, he would never have to worry about the businessmen's negative responses to these actions; neither would he be concerned about losing their support. Although it was possible that businessmen would complain about Lee's aggressive policy in private, they could hardly criticize Lee in public since that would only annoy Lee and thus endanger their own interests.

---

<sup>102</sup> See *United Daily News*, May 19, 1996, p. 2; December 1, 1997, p. 2; July 6, 1998, p. 4; May 20, 1999, p. 3; and May 16, 2000, p. 8.

Different from Lee's case, Chen Shui-bian's weakness as the president resulted mainly from the following two facts. First, Chen was elected president in March 2000 with just 39.3% of the popular vote. Although 39.3% is about the same level as the DPP's general electoral support, it nonetheless reflected the fact that Chen and his party were still unable to win wide support from the voters. That is, Chen did not enjoy the high degree of legitimacy that Lee Teng-hui earned in the 1996 presidential election. Second, Chen's DPP was a minority party in the Legislative Yuan when Chen won the presidential election. Of the total 225 seats in the Legislative Yuan, the DPP only held 70 of them, while the KMT held a majority with 123 seats.<sup>103</sup> Even though shortly after the 2000 presidential election a small group of KMT members left the KMT and joined the newly-formed PFP (People First Party), the DPP was still outnumbered in the Legislative Yuan by the KMT plus the PFP, the so-called Pan Blue coalition that shares similar ideologies. Although the DPP became the largest party in the Legislative Yuan in the 2001 legislative election, its 87 seats were still much less than the total of the KMT's 68 seats and the PFP's 46 seats.<sup>104</sup> In other words, Chen's party was still a minority one vis-à-vis the Pan Blue coalition in Taiwan's parliament.

Just like what Lee Teng-hui did, with the weakness that his presidency and his party encountered at the onset of his first presidential term, Chen also made a significant effort to build up a strong constituency among the business community.<sup>105</sup> Chen's

---

<sup>103</sup> These numbers are the results of the 1998 legislative election, the last one before Chen won the 2000 presidential election. Ibid., December 6, 1998, p. 1.

<sup>104</sup> A total of 225 seats were determined in the election. The results are from ibid., December 2, 2001, p. 1.

<sup>105</sup> For example, Chen started to call on Taiwan's major businesses and chambers of commerce right after he was elected president. In addition, to strengthen his connection with business groups, Chen frequently invited owners of big businesses to the presidential mansion for dinner after he came to power. These business groups included those from traditional industries, financial sectors, and electronic sectors. Chen did not do this for no reason because these business owners were Chen's or the DPP's financial supporters and it is said that each of them tended to contribute more than 20 million NT dollars to the DPP in major elections. Chen's relationship with businessmen went even further. For instance, he invited some business leaders to join his "advisory team for national affairs" in the 2000 election and continued to consult with

difference was that he never reached the strong-man status as Lee did. Chen could hardly implement his domestic policies because his party never became the majority party in the Legislative Yuan. In addition, Chen's approval ratings were relatively low most of the time. According to polls conducted by the *United Daily News*, his ratings were above 75% one month after he took over the presidency (i.e. in June 2000), and mostly above 60% in July and August 2000. But they started to plunge to lower than 50% and even below 40% in October 2000 and then fluctuated somewhere between 47% and 36% most of the time from November 2000 to September 2003 (except for March and May 2002 when his ratings were respectively 61% and 58%).

Chen was aware that his low approval ratings were harmful to his reelection. In particular, as Table 4-3 of Chapter 4 shows, the support he and his vice president received from voters was much lower than their opponents before October 2003. So, as the 2004 presidential election was approaching, Chen's only concern was how to boost his electoral support so that he could secure victory in the election. As I mentioned in Chapter 4, eventually he aggressively campaigned for the issues of referendum and a new constitution in order to appease the strong Taiwanese identity that was shared by an increasing portion of the voters.

It was possible that Chen's aggressive campaigns could weaken businessmen's support for him since these campaigns would inevitably cause cross-Strait tensions that were against the interests and preferences of the business community. But obviously the desire to win reelection still drove him to launch those campaigns. In addition to the

---

them after he was sworn in as the president. These business leaders include Shi Wen-lung, the boss of a leading petrochemical firm Chi Mei, and Evergreen Group's Chang Jung-fa, Acer Group's chairman Stan Shih, and the president of Continental Engineering Corporation Nita Ing. Chen also appointed three bankers who were close to him to join the Central Bank's Board of Directors, so that they could get involved in the making of the country's money policy. See respectively *Economic Daily News*, May 25, 2000, p. 4; *China Times*, June 19, 2006, p. A4; *United Daily News*, March 11, 2000, p. 1; and *China Times*, June 19, 2006, p. A4.

incentive that aggressive campaigns were likely to win the votes of those who shared a Taiwanese identity, there was another factor that persuaded Chen to get engaged in the campaigns: the DPP's diehard followers, or party activists, who traditionally support Taiwan's independence. As Table 5-4 and Figure 5-4 shows, Taiwan-independence supporters are usually the largest portion of DPP voters. We can tell from Table 5-4 that, except for the 2001 legislative election,<sup>106</sup> the percentage of those who support Taiwan-independence among DPP voters is at least around 40% in all national elections. If we exclude the 2004 legislative election as well, this percentage is over 45%. Moreover, except for the 2001 and 2004 legislative elections, the percentage of this group of voters tends to be higher than the percentages of those who support unification or the status quo.

**Table 5-4.** DPP Voters' Positions on Unification vs. Independence (%)

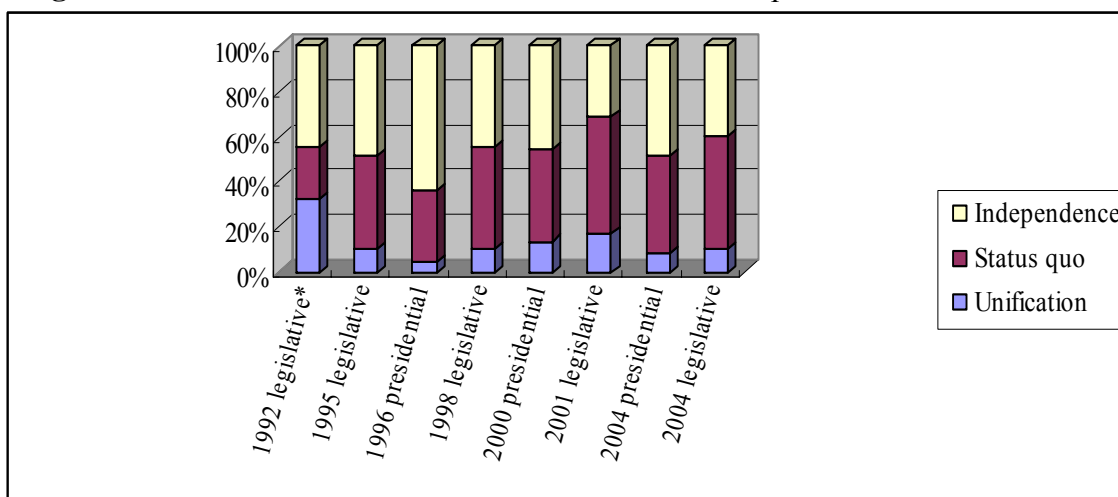
<b>Election</b>	<b>Unification</b>	<b>Status quo</b>	<b>Independence</b>
1992 legislative*	31.86	23.04	45.1
1995 legislative	10.37	40.66	48.97
1996 presidential	4.06	32.43	63.52
1998 legislative	9.9	45.05	45.05
2000 presidential	13.57	40.7	45.73
2001 legislative	16.63	52.33	31.04
2004 presidential	8.29	42.75	48.97
2004 legislative	10.49	49.65	39.86

\* The option in addition to unification and independence is "does not matter."

Sources: The datasets of 1992, 1995 and 1998 elections are from surveys conducted by the 306 Workshop at National Taiwan University. Those of 1996 and 2000 elections are from surveys conducted by Soochow University. The others are TEDS (Taiwan's Election and Democratization Study) datasets (the 2004 legislative dataset is based on Questionnaire A).

<sup>106</sup> The lower percentage in the 2001 legislative election (as well as the 2004 legislative election) might be caused by the fact that the Taiwan Solidarity Union, which was established in 2001, had attracted the votes of many loyal Taiwan-independence supporters.

**Figure 5-4.** DPP Voters' Positions on Unification vs. Independence



\* The option in addition to unification and independence is “does not matter.”  
 Sources: same as Table 5-4.

As Lin's research (2005) on Taiwan's 2004 presidential election points out, the reason these loyal DPP party activists could reinforce Chen's determination to engage in aggressive campaigns is because they could expand his support among the voters. Lin indicates that rational candidates would want to appeal to party activists because “Voting activists are not only persuaders but [also] agitators.” “When a candidate wins the support of an agitator, the support multiplies (2005: 4).” Thus, although Chen was likely to lose the business community's support, he would still keep or even expand voters' support for him since he could easily mobilize those party activists by taking conflictual actions toward China. In particular, when these party activists joined Chen's large-scale mass rallies, where he tended to utter provocative rhetoric, Chen usually was able to boost his

popularity and renew the momentum of his campaign.<sup>107</sup> This explains considerably why he would run against businessmen's preferences later on by launching aggressive campaigns toward China.

## **EMPIRICAL EVIDENCE FROM EVENT DATA**

This section will present and interpret the results of the VAR time-series analysis that are related to the effects of cross-Straits economic exchanges. The hardest part this VAR analysis encounters is finding a variable that appropriately represents cross-Straits economic exchanges. Because the data of other variables in the VAR model are collected on a daily basis, daily data for the variable of cross-Straits commerce should also be used. However, in both Taiwan's and China's official records of cross-Straits economic exchanges, the information about the amount of trade (which is the variable that most similar research uses to measure economic interdependence) or investment is usually compiled on a monthly basis rather than on a daily one. Therefore, this data on trade and investment is not helpful.

Instead, as I mentioned in Chapter 2, I use a variable, "China stocks," as the proxy for cross-Straits commerce. This variable is the daily return of a stock index. The calculation of the index is based on the stock prices of Taiwanese listed firms that are heavily invested in China. Because such an index stands for stock market participants' judgment on those firms' profitability in China, and presumably stock market

---

<sup>107</sup> Lin's research also provides a good argument and an example for this point. He says, "To edge the other candidate on the non-policy dimension, a candidate must promote his popularity... which requires donations of time and money. In Taiwan, the popularity of a campaigning candidate depends as much on mass rallies as on media advertisements, and donations of time are as important as donations of money. The 2004 election featured several large-scale mass rallies, notably the DPP's February 28 "Guarding Taiwan with Hands in Hands" rally, during which more than one million party supporters held hands to form a human chain stretching lengthwise through Taiwan. Such rallies boost candidate popularity and build momentum for a campaign. The critical importance of such rallies underscores the rationality for candidates to appeal to party activists." (2005: 24- 25) As Table 4-3 of Chapter 4 shows, shortly before and after the February 28 rally, Chen and Lu also improved their support among the voters to just 3 points behind their opponents.

participants' judgment is made according to each available piece of information regarding the cross-Strait commercial market, this index would reflect the performance of each activity in the market of cross-Strait economic exchanges, including trade and investment. Therefore, this is a variable that could reveal the information about the cross-Strait commercial market on a daily basis, which should qualify for the requirement of the VAR model as well as the purpose of this analysis.

Based on Appendix C (i.e. the full set of results of the VAR time-series analysis), Table 5-5 summarizes the VAR results that are related to the impact of cross-Strait commerce on both Taiwan's actions toward China and China's actions toward Taiwan.

**Table 5-5.** Estimates of the “China Stocks” Variable in the VAR Model

Dep. Variable Ind. Var.	China's actions toward Taiwan		Taiwan's actions toward China	
	1/1/1990- 6/30/1995	7/1/1995- 12/31/2004	1/1/1990- 6/30/1995	7/1/1995- 12/31/2004
<b>China Stocks</b>				

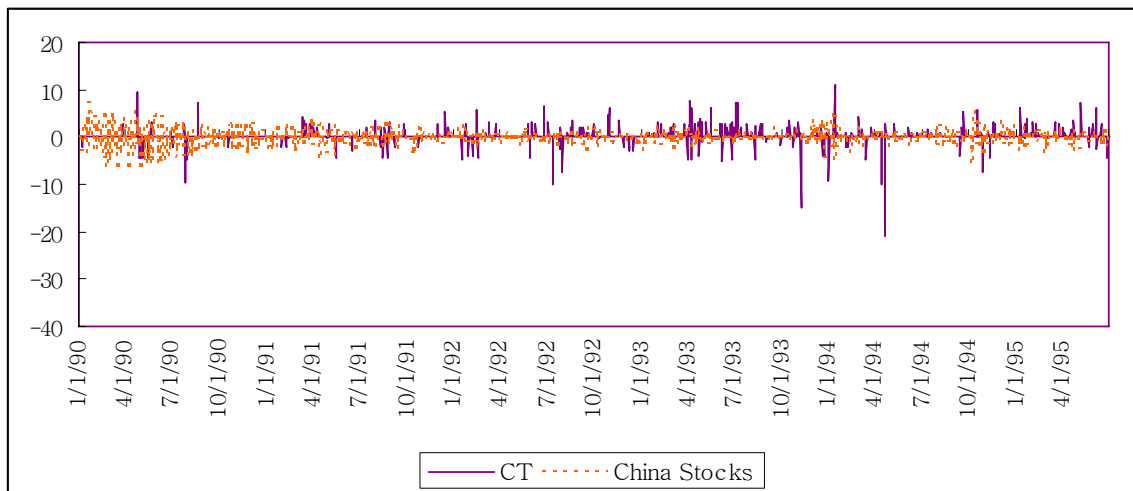
Table 5-5 shows the following findings. First, the “China Stocks” variable did not have any jointly-significant effect on China's actions toward Taiwan during both the period from January 1, 1990 to June 30, 1995 and that from July 1, 1995 to December 31, 2004. This means during the two periods the market factor of cross-Strait commerce did not significantly encourage China's conflictual actions toward Taiwan; neither did it significantly contribute to China's cooperative actions toward Taiwan.



Second, for both of the periods, the effect of “China Stocks” on Taiwan’s actions toward China was not jointly-significant either. Likewise, this indicates that cross-Strait economic exchanges did not significantly drive Taiwan’s China policy toward a confrontational direction; neither did they significantly bring about Taiwan’s cooperative actions toward China. This latter point directly supports my argument that cross-Strait commerce could not efficiently exercise a pacifying effect on Taiwan’s aggressive behavior toward China. That is, the businessmen whose commercial interests relied on cross-Strait commerce were unable to stop politicians from seeking their political interests.

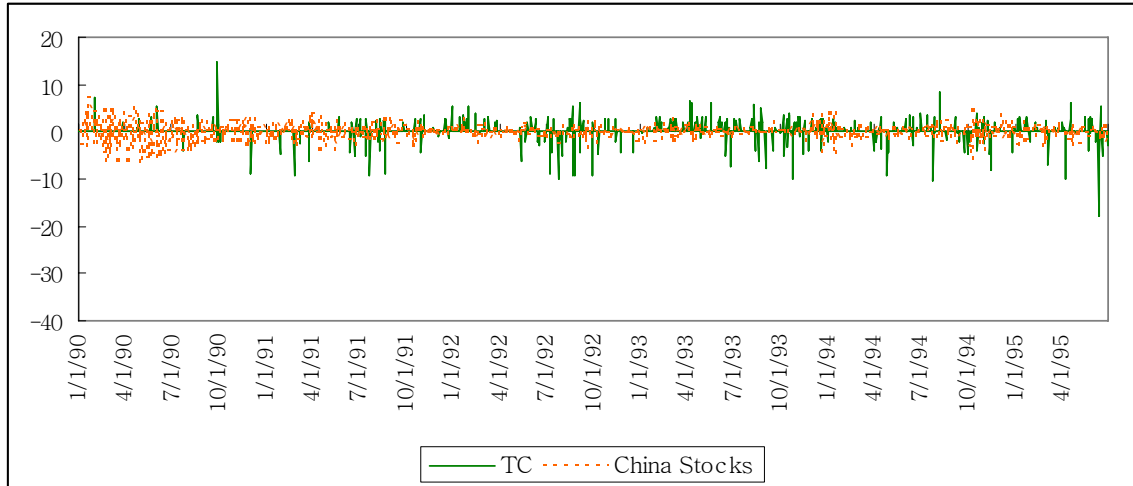
To illustrate the lack of a systematic relationship between cross-Strait commerce and China’s or Taiwan’s actions, Figures 5-5 to 5-8 demonstrate the path of “China Stocks” together with those of China’s actions toward Taiwan and Taiwan’s actions toward China during the two periods.

**Figure 5-5.** “China Stocks” and China’s Actions Toward Taiwan (The 1<sup>st</sup> Period)



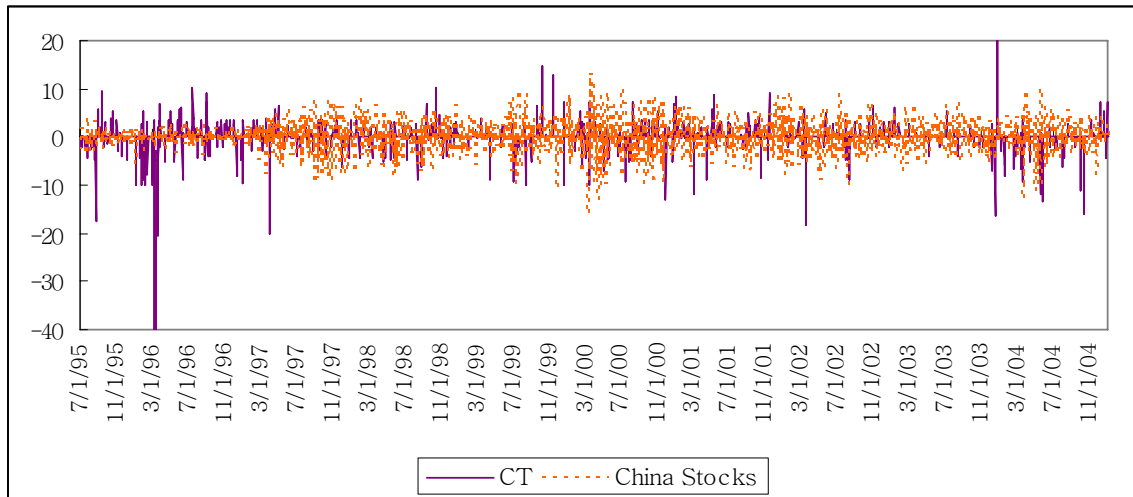
Note: The unit of China’s actions toward Taiwan (CT) is a cooperation (or conflict) score of 1.0, while that of “China Stocks” is one point of the index.

**Figure 5-6.** “China Stocks” and Taiwan’s Actions Toward China (The 1<sup>st</sup> Period)



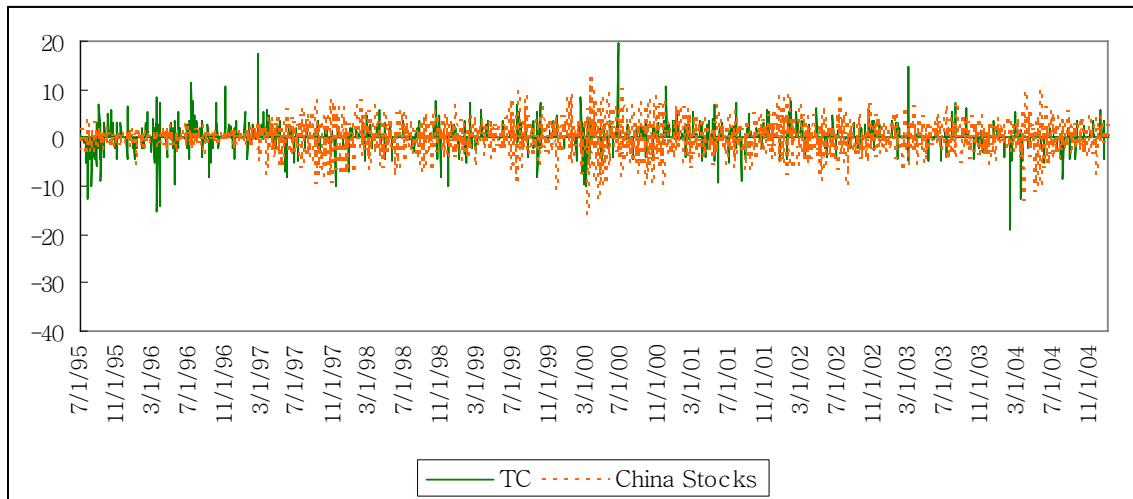
Note: The unit of Taiwan’s actions toward China (TC) is a cooperation (or conflict) score of 1.0, while that of “China Stocks” is one point of the index.

**Figure 5-7.** “China Stocks” and China’s Actions Toward Taiwan (The 2<sup>nd</sup> Period)



Note: The unit of China’s actions toward Taiwan (CT) is a cooperation (or conflict) score of 1.0, while that of “China Stocks” is one point of the index.

**Figure 5-8.** “China Stocks” and Taiwan’s Actions Toward China (The 2<sup>nd</sup> Period)



Note: The unit of Taiwan’s actions toward China (TC) is a cooperation (or conflict) score of 1.0, while that of “China Stocks” is one point of the index.

Some other points can be made based on the above findings. First, I mentioned in Chapter 3 that Taiwan’s actions toward China during the first period were generally more peaceful than those in the second period. Supposedly, cross-Strait economic exchanges were likely to contribute to the peaceful China policy during this period, but the VAR results show that no significant effect was found in this period. I think there are two reasons for this insignificant effect. On the one hand, the scale of cross-Strait exchanges was still small in the early 1990. As Figure 5-1 and Figure 5-2 show, the amount of cross-Strait trade was generally low from 1989 to 1992. Similarly, Figure 5-3 shows that the amount of Taiwan’s mainland investment was also limited in 1991 and 1992. Therefore, we can say that the commercial interests that were created by cross-Strait commerce did not considerably emerge until after 1993. This point of time is late in the first period of my analysis (i.e. from January 1, 1990 to June 30, 1995). Therefore, it is possible that this

late appearance of commercial interests would cause the insignificant effect of cross-Strait economic exchanges on Taiwan's actions toward China.

On the other hand, as I argued in Chapter 3, the appearance of a peaceful China policy resulted mainly from President Lee Teng-hui's rational calculation at the beginning of the 1990s. That is, the initiation of the peaceful China policy was motivated by Lee's consideration of securing his power at the time, not by his consideration of businessmen's commercial interests. He might have taken some friendly actions toward China (such as lifting some restrictions on cross-Strait economic exchanges) after learning businessmen's preferences about China policy, but that was just because those actions would also serve his political interests eventually.

Second, the fact that cross-Strait commerce did not drive Taiwan's China policy toward a confrontational direction also means that cross-Strait trade and Taiwan's mainland investment was not a source of Taiwan's conflict with China. Rather, as I have shown in Chapter 4, the electoral competition that reflected the rising Taiwanese identity had brought about Taiwan's aggressive actions toward China. Namely, it was politicians' concerns about their own political interests, rather than their consideration regarding businessmen's (or the country's) economic interests, that contributed to the conflictual actions.

Third, it would not be surprising to see cross-Strait economic exchanges exercise no effect on China's actions toward Taiwan. On the one hand, China was ruled by the CCP, which is an authoritarian regime. Thus, any societal actors, including Taiwanese businessmen, could hardly influence its policy making. On the other hand, in the CCP's making of Taiwan policy, the political consideration of preventing Taiwan from "splitting the Chinese territorial sovereignty" would always dominate other concerns that include the nation's economic interests. Particularly, the strong Chinese nationalism in China

would never allow the CCP to give in to Taiwan's attempt to move toward independence either. Therefore, even if cross-Straits commerce had also created significant economic interests for China, such as the inflow of capital and the creation of millions of jobs for Chinese labors, the CCP would still need to show aggressiveness toward Taiwan's independence-leaning actions.

## **CONCLUSION**

The analysis of this chapter has come to the following conclusions. First, it shows that the economic exchanges between Taiwan and China were not a source of cross-Strait conflict. A first glance at the concurrence of growing cross-Strait economic exchanges and increasing conflicts across the Strait might lead to the conclusion that economic interdependence has contributed to Taiwan's aggressive actions toward China. But this is not a fact. Instead, as I have discussed in the last chapter, Taiwan's conflictual actions toward China are closely associated with the electoral politics within the island.

Second, cross-Strait economic exchanges have promoted the appearance of a peace-making force, that is, the Taiwanese business community whose commercial interests rely upon the peace between Taiwan and China as well as the liberalization of cross-Strait commerce. But this peace-making force could not work efficiently in the making of Taiwan's China policy due to Taiwan's electoral politics. While businessmen look for commercial interests, politicians also pursue their political interests, i.e. winning elections. Thus, with the rise of a strong Taiwanese identity among the voters and the institutionalization of electoral competition, leaders in Taiwan tended to take aggressive actions toward China in order to win elections, even though these actions contradicted businessmen's preferences. Particularly, with the help of some specific conditions such as Lee Teng-hui's strong-man status and DPP party activists' support for Chen Shui-bian,

state leaders were able to ignore the business community when making their China policy.

Third, it shows that the fundamentalists (i.e. party activists) had been an important reason why cross-Strait commerce could not stop Taiwan's aggressive actions toward China. Some liberal peace theorists stress the median voters' role in the link between trade and foreign policy. For example, Papayoanou (1996: 47) argues, "In democracies we would expect economic interest groups and the society at large as voters to be fairly powerful in relation to the state. This constrains state leaders in democracies to pursue policies that are largely consistent with the median preferences of vested interests." But this is not the case in Taiwan, particularly after 2002. As I mentioned earlier, when Chen Shui-bian was running for reelection in 2004, he turned to DPP party activists to boost his popularity. Consequently, he adopted some aggressive actions toward China to appease those DPP fundamentalists, rather than a median approach that was preferred by the business community and other median voters. This fact signifies the tendency that Taiwanese politics, including the making of cross-Strait policies, has to some extent been dominated by DPP party activists. Therefore, we can hardly expect to see the liberal peace theory being applied to Taiwan's case before Chen steps down in 2008.

The last two conclusions seem to be pessimistic since they imply that the development of Taiwan's *domestic* politics in the foreseeing future will bring the island's China policy toward a direction of no return, i.e. continuing to be conflictual. While we still do not know if this scenario will really happen, another question that we might also ask is: Are there any *external* factors that would affect Taiwan's actions toward China? In the next chapter I am going to discuss such an external factor, that is, the United States.

## Chapter 6

### The United States as a Factor in Taiwan's Actions Toward China

#### INTRODUCTION

Since the 1950s the United State has been a crucial third party in the Taiwan-China relationship. As the dominant power in the Asia-Pacific region, the U.S. has regarded the peace of Taiwan Strait as the cornerstone of its East Asia policy. Consequently, deterring any Chinese attack on Taiwan has been a major goal for the U.S. in its management of the region's stability.<sup>108</sup> Similarly, when electoral competition in Taiwan began to complicate the issues of national identity and foreign policy on the island in the early 1990s, and when such domestic competition triggered Chinese military actions against the island in the mid-1990s, it was not unusual for the U.S. to pay closer attention to fine tuning its Taiwan policy.

As the most important international third party for Taiwan, how did the U.S. affect Taiwan's actions toward China? Did U.S. actions (or policies) toward Taiwan always successfully contribute to Taiwan's cooperative or peaceful gestures toward China? In this chapter I argue that the nature of a third party's influence in conflict management must be assessed in the context of regional countries' domestic politics. In

---

<sup>108</sup> For example, the Shanghai Communiqué that was signed between the U.S. and China on February 27, 1972 states that "It [The United States government] reaffirms its interest in a peaceful settlement of the Taiwan question by the Chinese themselves." Section 2 (b) of Taiwan Relations Act (1979) also mentions: "It is the policy of the United States... (2) to declare that peace and stability in the area are in the political, security, and economic interests of the United States, and are matters of international concern; (3) to make clear that the United States decision to establish diplomatic relations with the People's Republic of China rests upon the expectation that the future of Taiwan will be determined by peaceful means; (4) to consider any effort to determine the future of Taiwan by other than peaceful means, including by boycotts or embargoes, a threat to the peace and security of the Western Pacific area and of grave concern to the United States." See <http://taiwansecurity.org/TSR-US.htm>.

Taiwan's case, the way the U.S. factor exercised its effects on Taiwan should be considered together with Taiwanese politicians' concerns about their domestic electoral interests. In the period from the early 1990s to mid-1995, the U.S. started to direct friendly actions toward Taiwan. But because electoral competition had turned more and more intense in Taiwan, particularly when the first direct presidential election was going to take place in the spring of 1996, Taiwan took advantage of friendly U.S. actions by directing conflictual actions toward China (i.e. aggressive diplomatic actions). As for the period from mid-1995 to 2004, when presidential elections were nearing, it was common to see the U.S. warn Taiwan against any provocative actions, but Taiwan's leaders tended to respond by insisting on engaging in aggressive actions toward China since backing down would only cost their or their parties' electoral interests. On the other hand, when presidential elections were distant and Taiwan displayed no provocative behaviors, U.S. actions toward Taiwan tended to be cooperative. At the same time, Taiwan's leaders would also pay attention to maintaining the country's relationship with the U.S. Consequently, in order to meet U.S. expectations for a stable cross-Straits relationship, Taiwan would respond to cooperative U.S. actions by showing friendly gestures to China.

In the following, I will start with a brief literature review on a third party's role in the management of regional conflict. Then I elaborate my argument about how the U.S. as an external factor affected Taiwan's actions toward China. The following section presents the VAR results concerning the U.S. factor. They show that when controlling for the variable of domestic politics, U.S. actions toward Taiwan indeed constitute a variable that significantly affected Taiwan's actions toward China, but in an unclear direction. Therefore, I turn to case studies in the following sections to determine the way in which Taiwan responded to U.S. actions. First I present an introduction to the United States' historical role for Taiwan, which indicates why the U.S. had been an important external



factor for Taiwan's policy makers. Then, I lay out the baseline of the post-1979 U.S. policy toward Taiwan so that the shifts in the U.S.'s Taiwan policy at a later time can be easily observed. I then use several examples to illustrate my argument about the effects of the shifts in U.S. Taiwan policy. The last section is the conclusion of this chapter.

### **A THIRD PARTY'S ROLE IN CONFLICT MANAGEMENT**

IR scholars have recognized the significance of a third party in maintaining regional peace or stability. In particular, as regional conflicts have become a widespread phenomenon in world politics, how effective a third party manages these conflicts has also been a widely contested topic in the IR literature. Among these works, some argue that a third party can lead to regional cooperation or the resolution of regional conflicts. For example, liberal institutionalists claim that states are likely to cooperate with each other if an international institutional arrangement, such as an international organization, is set up to enforce rules and communicate information between states (Axelrod and Keohane 1993; Keohane 1993; Keohane and Martin 1995). Also, the reasoning behind the bargaining theory of war suggests that, by eliminating private information through communicating or revealing information, or by stopping the occurrence of commitment problems through guaranteeing the enforcement of the negotiated terms, a third party is able to contribute to regional conflict resolution (Fearon 1993: 3; Wagner 1999: 13-14; Walter 2002).<sup>109</sup>

---

<sup>109</sup> The bargaining theory of war argues that the reason state leaders still go to war, even when they know the costs and risks of fighting, is because of the existence of private information, incentives to misrepresent such information, and commitment problems (Fearon 1995: 381). State leaders usually have private information about their own country's military capability and resolve, but do not know much about those of their rivals'. In addition, they also tend to misrepresent such private information. This combination of asymmetrical information and incentive to dissemble could lead to the miscalculation of both sides' relative military capabilities and the rival's resolve to fight, therefore making war more likely to occur. Commitment problems arise when states have incentives to renege on the negotiated terms and refuse to make any commitment to follow these terms. In anticipation of its rival's inability to make any credible commitment, a state would be more likely to choose fighting to secure its own interests rather than accept the negotiated terms. Negotiations thus always fail and war becomes unavoidable.

However, some other studies show that there is a limit to the third party's role. For example, one of the regional rivals may take advantage of the third party's friendly policy by increasing hostility toward its opponent (Goldstein and Pevehouse 1997; Pevehouse and Goldstein 1999a, 1999b; Goldstein et al. 2001). In addition, rival states may both take advantage of the negotiated ceasefires by rearming themselves when an outside power intervenes, thus, instead of stopping a regional conflict, a third party's intervention may happen to prolong it (Woodward 1995; Ciment 1997).

This chapter will follow the above debate by focusing on the role the United States played in Taiwan's actions toward China. As I will show below, how effective a third party could maintain the stability of a region has something to do with the regional states' domestic politics.

#### **POLITICIANS' DOMESTIC CONCERNS VS. INTERNATIONAL CONCERNS**

To understand how the United States worked as a factor in Taiwan's actions toward China during the period from 1987 to 2004, we have to focus on how Taiwanese politicians balanced between their domestic concerns and the international concerns involving the U.S. Domestically, politicians' primary consideration would be the maximization of their political interests, i.e. winning elections. Internationally, politicians would consider two factors that were associated with the U.S. First, politicians would wonder if U.S. policies constituted any restraints or opportunities for Taiwan. That is, they would consider how much space U.S. policies had provided for Taiwan's maneuver in cross-Strait relations. Second, Taiwanese politicians would consider if any of their actions could possibly offend the U.S. and jeopardize the two countries' bilateral relations. This is because the U.S. has been the one and only ally that Taiwan has been able to rely on since the 1950s and thus is very important to Taiwan's survival.

In his discussion of the U.S.-Taiwan-China relations, Wu argues that there is a specific pattern for decision makers who face both domestic and international games, that is “whenever domestic political competition intensifies, decision-makers swiftly shift to the domestic scene, and they do not return to the international game until the domestic competition is over and they have secured victory (2006: 10- 13).” This is a pattern that indeed occurred among Taiwanese politicians. In my opinion, how politicians balanced between the above domestic and international concerns was related to the tempo of Taiwan’s domestic political competition. When elections approached, politicians would weigh their domestic political interests more than the international concerns. At this time, they would take adventurous actions that were provocative toward China in order to appease voters who shared a Taiwanese identity, particularly when U.S. policies or actions toward Taiwan were supportive. But politicians would still try to do so prior to elections, even though such actions were likely to hurt U.S.-Taiwan relations, when U.S. policies were unfavorable to Taiwan. When the elections were over, politicians who won elections would not need to be aggressive toward China. This was also the time they would pay more attention to taking care of Taiwan’s relationship with the U.S.

Consequently, the way the U.S. factor worked to influence Taiwan’s actions toward China is connected to this political tempo in Taiwan. When the election season was far away Taiwanese politicians tended to respond to any U.S. actions by showing cooperative actions toward China, in the hope of meeting Washington’s expectation for stable cross-Strait relations. But when Taiwan entered its election season, politicians were likely to respond to any U.S. actions with aggressive actions toward China. That is, if the United States directed friendly actions toward Taiwan, these actions could possibly encourage Taiwanese politicians to take conflictual actions toward China. But if the U.S. directed unfriendly actions toward Taiwan, such as criticizing Taiwan’s provocation, the

actions could contribute to Taiwan's aggressive actions toward China too. This is because Taiwanese politicians had to appear aggressive rather than back down in front of voters. Under such a situation, any U.S. criticism would only strengthen politicians' toughness and lead to more conflictual actions as a result.

More specifically, in the period from the early 1990s to mid-1995, the U.S. started to show greater support for Taiwan than in the 1980s. But, when Taiwan's first direct presidential election (which was in March 1996) was about to occur, the Taiwanese leader took advantage of U.S. support by launching adventurous diplomatic actions that were provocative in China's eyes. This is an example of a triangular interaction-pattern that Goldstein and Pevehouse (1997: 516) call the "inverse triangular response." That is, Taiwan directed aggressive actions toward China after receiving U.S. friendly actions. On the other hand, for the period from mid-1995 to 2004, presidential elections had dominated the rhythm of Taiwanese politics. During election seasons, Taiwan would still direct aggressive actions toward China after receiving U.S. conflictual (e.g. criticizing Taiwan's provocative actions, etc.) actions. During non-election seasons, Taiwan would direct friendly actions toward China after receiving U.S. friendly actions (e.g. stopping criticism of Taiwan, holding high-level dialogues with Taiwan, reassuring Taiwan about its security, etc.). This is a pattern that Goldstein and Pevehouse call "triangular reciprocity."

To demonstrate the effects of the U.S. factor, I will apply both VAR time-series analysis and case studies in this chapter.

## **RESULTS OF VAR ANALYSIS**

In this section, I present empirical evidence from event data to show the effects of "U.S. actions toward Taiwan" on "Taiwan's actions toward China." The VAR results in Table 6-1 are summarized from the full set of results of the VAR time-series analysis in

Appendix C. In addition, in order to estimate the directions in which “Taiwan’s actions toward China” (*TC*) responded to “U.S. actions toward Taiwan” (*UT*), i.e. if *TC* responded positively/reciprocally or negatively/inversely to *UT*, I also present the results of the impulse response function in Table 6-1 (the signs in parentheses). The findings of the results are as follows.

First, during the first period (i.e. from January 1, 1990 to June 30, 1995), the effect of the (lagged) variable of “U.S. actions toward Taiwan” was jointly significant on “Taiwan’s actions toward China” at the significance level of .05.

**Table 6-1.** Results of the VAR Analysis and Impulse Response Function on *UT*’s Effects

Dep. Variable Ind. Var.	Taiwan’s actions toward China	
	1/1/1990- 6/30/1995	7/1/1995- 12/31/2004
<b>U.S. actions toward Taiwan</b>	* (?)	*** (?)

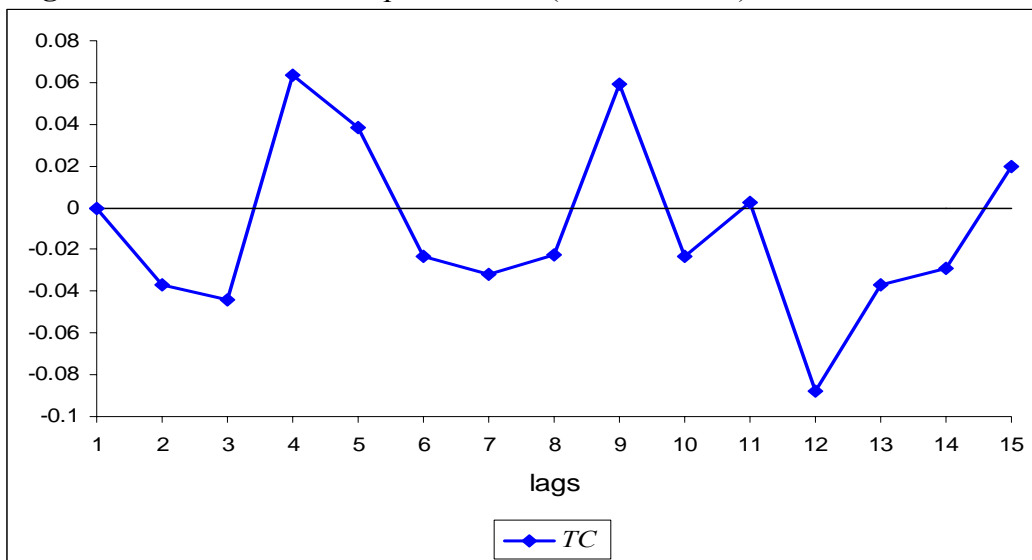
Note: 1. \*\*\*  $p < .001$ ; \*  $p < .05$ . 2. “?” means the response does not have any clear direction.

Second, the effect of the (lagged) variable of “U.S. actions toward Taiwan” was also jointly significant on “Taiwan’s actions toward China” during the second period (i.e. from July 1, 1995 to December 31, 2004). The significance level is .001 for this period.

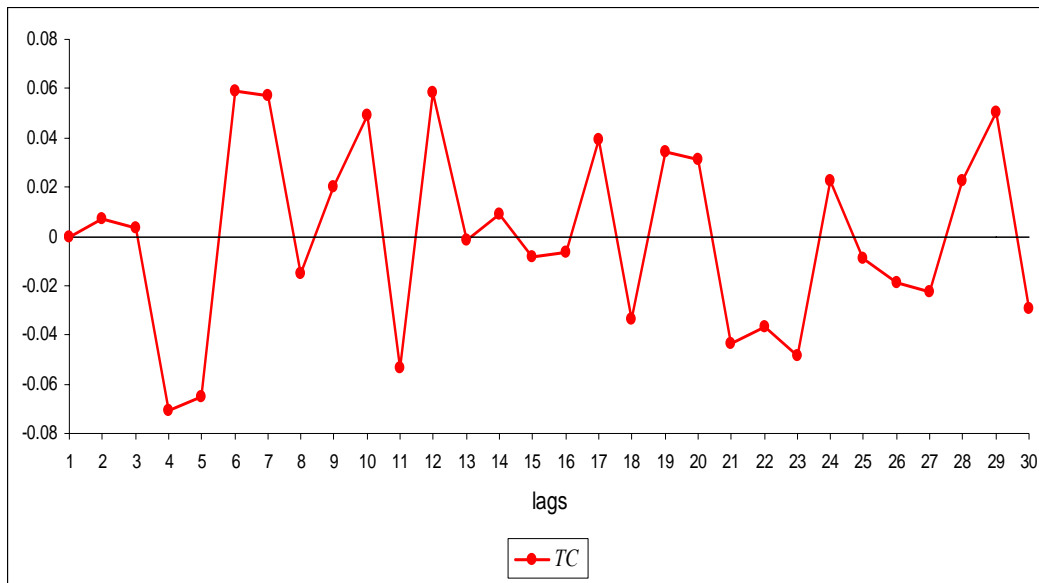
Third, the results of the impulse response function show that the direction in which “Taiwan’s actions toward China” would respond to “U.S. actions toward Taiwan” is unclear for both periods.

These findings indicate that, controlling for the variable of domestic politics, “U.S. actions toward Taiwan” were a significant variable affecting Taiwan’s actions against China in both periods. This finding means, through its actions or policies toward Taiwan, the United States did play a significant role in influencing how Taiwan acted toward China. However, the direction in which “Taiwan’s actions toward China” reacted to “U.S. actions toward Taiwan” could not be clearly determined. This is because the impulse response function shows the response of *TC* is sometimes positive and others times negative, as Figure 6-1 and Figure 6-2 display. This means the impulse response function does not allow the generalization of *TC*’s response direction. Therefore, I have to turn to case studies instead to examine how *TC* responded to *UT*.

**Figure 6-1.** Plot of *TC*’s Response to *UT* (The 1<sup>st</sup> Period)

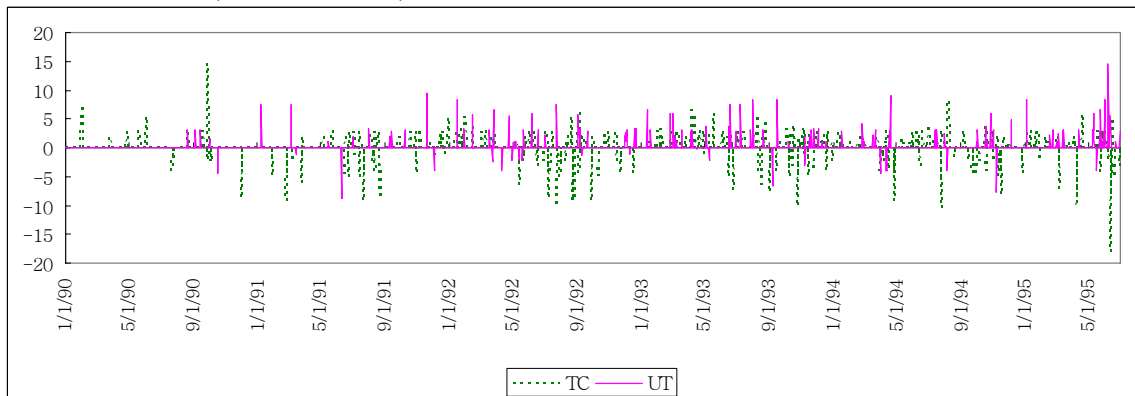


**Figure 6-2.** Plot of *TC*'s Response to *UT* (The 2<sup>nd</sup> Period)

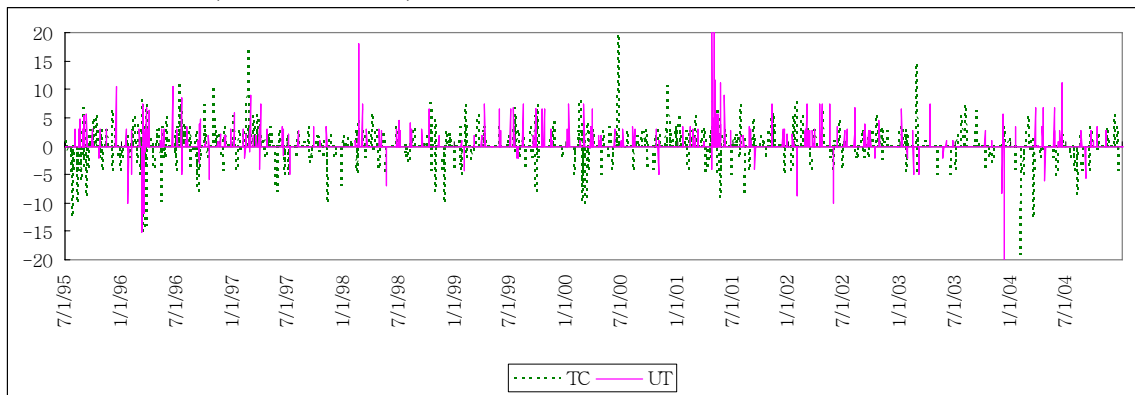


To illustrate the above relationship between “U.S. actions toward Taiwan” and “Taiwan’s actions toward China,” Figure 6-3 and Figure 6-4 respectively show the two variables’ paths in both periods.

**Figure 6-3.** Net Cooperation in U.S. Actions toward Taiwan and Taiwan’s Actions Toward China (The 1<sup>st</sup> Period)



**Figure 6-4.** Net Cooperation in U.S. Actions toward Taiwan and Taiwan's Actions Toward China (The 2<sup>nd</sup> Period)



Before discussing the case studies, I have another point to make about the VAR results. That is, although in this chapter I am focusing on the effects of “U.S. actions toward Taiwan,” this does not mean that China had no effects on Taiwan’s actions toward it. Summarizing from Appendix C, Table 6-2 shows that in the second period the effect of the (lagged) variable of “China’s actions toward Taiwan” (*CT*) on “Taiwan’s actions toward China” (*TC*) is significant at .001 level, although it is also difficult to judge how *TC* responded to *CT*.<sup>110</sup> In other words, China itself is also a variable affecting how Taiwan would act toward it. But because I am discussing the U.S. factor in this chapter, I will just skip the effects that China exercised and instead concentrate on those of the United States.

<sup>110</sup> The impulse response function does not show any clear direction in which *TC* responded to *CT* either.



**Table 6-2.** Results of the VAR Analysis and Impulse Response Function on *CT*'s Effects

Dep. Variable Ind. Var.	Taiwan's actions toward China	
	1/1/1990- 6/30/1995	7/1/1995- 12/31/2004
<b>China's actions toward Taiwan</b>		*** (?)

Note: 1. \*\*\*  $p < .001$ . 2. “?” means the response does not have any clear direction.

In the following I am going to switch to case studies to examine how *TC* responded to *UT*. I will provide some background information at first: in order to show the U.S. factor's significance for Taiwan, I will start with an introduction to the United States' historical role in Taiwan's international relations; then I depict the baseline of post-1979 U.S. Taiwan policy against which some changes occurring in the 1990s and early 2000s can be easily monitored.

#### **THE UNITED STATES: A CRITICAL THIRD PARTY FOR TAIWAN**

To understand why the U.S. has been a crucial actor for Taiwan, I will quickly review the changes in Taiwan-U.S. relations from the 1950s to 1970s.

Taiwan was in danger of being invaded by China in 1949. In that year, the weary KMT regime moved to Taiwan after losing the Chinese Civil War. Meanwhile, the Chinese Communist Party (CCP) was preparing to give the KMT a final blow from the other side of Taiwan Strait. But things changed suddenly when the Korean War broke out in June 1950. In order to contain the expansion of the communist bloc, President Truman

sent the Seventh Fleet of the U.S. Navy into the Taiwan Strait to protect Taiwan from any Chinese attack. For about the following two decades, the U.S. had been Taiwan's closest and staunchest ally. On the security side, the two countries signed the U.S.-R.O.C. Mutual Defense Treaty to form a formal military alliance in 1954. On the economic side, the U.S. provided Taiwan with aid of around 1.5 billion U.S. dollars during the period from 1951 to 1965 (military aid not included), which not only increased Taiwan's agricultural production and strengthened its infrastructure at the time but also contributed to the island's industrial development thereafter (Shiau 1989: 54- 60). Finally on the diplomatic side, the U.S. supported Taiwan as the sole legitimate government of China. As a result, Taiwan was able to keep its seat in the United Nations and in the Security Council for around two decades. In the meantime, most of the countries in the world also kept official relations with Taiwan.

From the perspective of the triangular relations between Taiwan, China, and the U.S., strong U.S. support for Taiwan in the 1950s and 1960s shows that the U.S. was totally "tilting" toward Taiwan during the period. In other words, the balance of power across the Taiwan Strait was favorable to Taiwan at the time. But when the U.S. was changing its Cold-War grand strategy in the 1970s, this balance of power began to turn unfavorable for Taiwan. In the beginning of the 1970s, Nixon and Kissinger sought to ally with China in order to balance the Soviet Union. As a result, Taiwan entered an era of international isolation. Nixon's grand strategy contributed to two events that seriously damaged Taiwan's foreign relations in the 1970s: Taiwan lost its U.N. membership in 1971; then the United States cut official ties with Taiwan, established diplomatic relations with China on January 1, 1979, and terminated the U.S.-R.O.C. Mutual Defense Treaty at the end of 1979. The events generated a chain reaction, where many other

countries disconnected their official relations with Taiwan and recognized the People's Republic of China, following the U.S. lead.<sup>111</sup>

The above history has shown why the United States is a crucial outsider for Taiwan. First, the U.S. has been in a position that could change the balance of power across Taiwan Strait. The U.S. supported Taiwan wholeheartedly when trying to contain the spread of the communist bloc, but started to ally with China when it later attempted to balance the Soviet Union. In other words, the U.S. can shift the balance of power between Taiwan and China when its strategic interests change. Second, the above history also demonstrates the fact that Taiwan's destiny depended considerably on the United States. The island could hardly survive without U.S. economic aid and military defense; neither could it sustain its diplomatic relations with most countries in the world after the withdrawal of U.S. support. As Taiwan relied on the U.S. so greatly, the U.S. had become the only foreign country that could potentially affect Taiwan in all respects.

Taiwanese politicians were fully aware of the United States' critical role for Taiwan. Consequently, they not only understood the importance of keeping a good relationship with the U.S. but also cared about the change in U.S. policy toward Taiwan and the consequent variation in Taiwan's international constraints or opportunities.

#### **BASELINE OF THE POST-1979 U.S. TAIWAN POLICY**

To accommodate the new situation created by the termination of U.S.-Taiwan official ties, the U.S. constructed a framework for the new bilateral relationship with the Taiwan Relations Act, the 1982 U.S.-PRC Joint Communiqué, and the six private promises that it gave Taiwan at the same time as the 1982 Communiqué. This framework

---

<sup>111</sup> In 1970, Taiwan had 67 allies while China had 54. In 1971, the number of Taiwan's allies dropped to 56 and that of China's increased to 74. In 1979, only 23 countries still kept their diplomatic relations with Taiwan, but 127 countries had established official ties with China. See Wei 1991: 2-3.

basically set the tone for the two countries' relationship in the 1980s. At the same time, it also constitutes the baseline from which U.S. Taiwan policies began to shift in the 1990s.

Table 6-3 shows how this framework looks across three major issue-areas: the contact levels between the U.S. and Taiwan, Taiwan's security, and Taiwan's international status.<sup>112</sup> Tracing the changes in the United States' Taiwan policy, Table 6-3 also lists the 1972 Shanghai Communiqué, and 1979 Joint Communiqué on the Establishment of Diplomatic Relations between the People's Republic of China and the United States of America. The 1972 Communiqué is the product of Nixon's 1972 groundbreaking trip to China, while the 1979 Communiqué was signed when the U.S. established official relations with China.

**Table 6-3.** U.S. Policy Toward Taiwan in the 1970s and 1980s

Period	Contact Levels	Taiwan's Security	Taiwan's Status
February 27, 1972 (The Shanghai Communiqué)	"[t]he two sides stated that progress toward <i>the normalization of relations between China and the United States</i> is in the interests of all countries."	The U.S. "affirms the ultimate objective of <i>the withdrawal of all U.S. forces and military installations from Taiwan</i> . In the meantime, it will	"The United States <i>acknowledges</i> that all Chinese on either side of the Taiwan Strait maintain <i>there is but one China and that Taiwan is a part of China</i> . The

<sup>112</sup> Generally speaking, the changes in U.S. policy toward Taiwan since 1979 occurred mainly across these three different dimensions. First of all, the level of contact is never an issue between countries with diplomatic relations. But for Taiwan and the U.S. which do not have any diplomatic ties with each other, the shift in the two countries' contact levels could be a major barometer that measures how friendly the U.S. is to Taiwan. For example, when the U.S. sent its Trade Representative to visit Taiwan in 1992, or when it allowed Taiwan's defense minister to visit the States in 2002, the U.S. was considered to be sending friendly signals to Taiwan. This is because the U.S. was raising the level of contact between the two countries' to a more official level. The second issue-area where shifts can be observed in the United States' Taiwan policy is Taiwan's security, particularly the issue of U.S. arms sale to Taiwan. This is because U.S. arms sale policies toward Taiwan are usually regarded as an indicator of U.S. resolve to help in the island's defense. Finally, the U.S. position on the issues regarding Taiwan's future status, that is, unification with China or the movement toward *de jure* independence, is considered another way to gauge U.S. support for Taiwan, particularly in the late 1990s and early 2000s when Taiwan seemed to be moving toward independence. When U.S. officials repeatedly reiterated that the U.S. does not support Taiwan's independence, or when the hierarchy of U.S. officials who make such a declaration turns higher, that means the U.S. is adding pressure to Taiwan.

		progressively reduce its forces and military installations on Taiwan as the tension in the area diminishes.”	United States Government does not challenge that position.”
January 1, 1979 (Joint Communiqué on the Establishment of Diplomatic Relations between the People's Republic of China and the United States of America)	“The United States of America recognizes the Government of the People’s Republic of China as the sole legal Government of China. Within this context, <i>the people of the United States will maintain cultural, commercial, and other unofficial relations with the people of Taiwan.</i> ”		“The Government of the United States of America acknowledges the Chinese position that there is but one China and Taiwan is part of China.”
April 10, 1979 (Taiwan Relations Act)	“It is the policy of the United States to preserve and promote extensive, close, and friendly commercial, cultural, and other relations between the people of the United States and the people on Taiwan.”	“It is the policy of the United States <i>to ... provide Taiwan with arms of a defensive character</i> ; and to maintain the capacity of the United States to resist any resort to force or other forms of coercion that would jeopardize the security, or the social or economic system, of the people on	

---

<sup>113</sup> The articles regarding Taiwan’s security in Taiwan Relations Act include the following:

Sec. 2.

(b) It is the policy of the United States -- ...

(4) to consider any effort to determine the future of Taiwan by other than peaceful means including by boycotts or embargoes, a threat to the peace and security of the Western Pacific area and of grave concern to the United States;

(5) to provide Taiwan with arms of a defensive character, and

(6) to maintain the capacity of the United States to resist any resort to force or other forms of coercion that would jeopardize the security, or the social or economic system, of the people on Taiwan.

Sec. 3.

(a) In furtherance of the policy set forth in section 2 of this Act, the United States will make available to Taiwan such defense articles and defense services in such quantity as may be necessary to enable Taiwan to maintain a sufficient self-defense capability.

(b) The President and the Congress shall determine the nature and quantity of such defense articles and services based solely upon their judgment of the needs of Taiwan, in accordance with procedures

		Taiwan.” <sup>113</sup>	
August 17, 1982 (U.S.-PRC Joint Communiqué)		“the United States Government states that it does not seek to carry out a long-term policy of arms sales to Taiwan, that its arms sales to Taiwan will not exceed, either in qualitative or in quantitative terms, the level of those supplied in recent years since the establishment of diplomatic relations between the United States and China, and that <i>it intends to reduce gradually its sales of arms to Taiwan, leading over a period of time to a final resolution.</i> ”	“The United States Government ... reiterates that <i>it has no intention of ... pursuing a policy of ‘two Chinas’ or ‘one China, one Taiwan.’</i> ”
August 1982 (Six Private Promises to Taiwan)		The U.S. would not set a date for termination of arms sales to Taiwan; neither would it consult with China in advance before making decisions about arms sales to Taiwan.	The U.S. would not formally recognize Chinese sovereignty over Taiwan.

Source: The website of Taiwan Security Research (<http://taiwansecurity.org/TSR-US.htm>); Kennedy 2003: 33.

This table shows that in the dimension of contact levels the U.S. had already set the goal of normalizing its relations with China when Nixon visited China in 1972. The U.S. reached this goal in 1979, sacrificing its official ties with Taiwan. As a result, the

---

established by law. Such determination of Taiwan's defense needs shall include review by United States military authorities in connection with recommendations to the President and the Congress.  
(c)The President is directed to inform the Congress promptly of any threat to the security or the social or economic system of the people on Taiwan and any danger to the interests of the United States arising therefrom. The President and the Congress shall determine, in accordance with constitutional processes, appropriate action by the United States in response to any such danger.

contact level between Taiwan and the U.S. was downgraded to an unofficial one, in which top governmental officials of the two countries were unable to have any official contact.

On the part of Taiwan's security, the termination of the U.S.-R.O.C. Mutual Defense Treaty at the end of 1979 also realized the plan that the United States set up in the 1972 Communiqué, that is, to withdraw its troops from Taiwan eventually. Meanwhile, to fill the security gap that would be caused by the withdrawal of U.S. military forces, the U.S. Congress passed the Taiwan Relations Act, which requires the U.S. to provide Taiwan with arms and any other help for the island's self-defense. However, this security promise was seriously challenged by the 1982 U.S.-PRC Joint Communiqué, which was released when President Reagan visited China in August of that year. In the Communiqué the U.S. agreed to reduce its arms sales to Taiwan step by step. According to James Lilley, who was the Taipei Office director of the American Institute in Taiwan (AIT) from 1982 to 1984 and U.S. Ambassador to China from 1989 to 1991, U.S. arms-sale policy in the 1982 Communiqué was a result of the domination of the State Department's pro-China bureaucrats and was against President Reagan's personal good will toward Taiwan. Therefore, in order to balance the damage that might be caused to Taiwan by the Communiqué, the U.S. also gave Taiwan six promises to reassure Taiwan that it would not set any date to terminate the arms sales, and that it would not consult with China before making any decisions about arms sales to Taiwan (Lilley 2003: 223- 230).<sup>114</sup> It is based on these six promises that the U.S. has continued to sell arms to Taiwan since 1979.<sup>115</sup>

---

<sup>114</sup> According to Lilley, the six promises were written by the AIT's chairman David Dean and forwarded by Lilley to Taiwan's President Chiang Ching-kuo one month before the 1982 Communiqué was formally released. Although not directly from President Reagan, the promises generally reflected Reagan's attitude toward Taiwan at the time. The evidence proving this is that, shortly after signing the 1982 Communiqué, Regan ordered in a memo that any reduction of arms sale to Taiwan must be based on the premise that China would keep its promise of peacefully resolving the Taiwan question; that the arms' quality and

Finally, on the question of Taiwan's status, the U.S. told China in the 1982 Communiqué that it had no intention of pursuing a policy of "two Chinas" or "one China, one Taiwan," which is the continuation of its position in the 1972 Communiqué that it acknowledges there is one China and Taiwan is part of China. But on the other hand, in one of its six promises the U.S. also told Taiwan that it would not formally recognize Chinese sovereignty over Taiwan. Considering these two policies simultaneously, we can see that the U.S.'s position is two fold. First, it "acknowledges" but does not "recognize" the Chinese position on Taiwan's status. Second, it would not support the quest for "two Chinas" or "one China, one Taiwan." This two-folded position shows that the U.S. follows a "one China" policy, but it also suggests that the U.S. does not fully agree with China's sovereignty claim over Taiwan.

#### **THE EFFECTS OF THE U.S. FACTOR: EMPIRICAL EXAMPLES**

Various shifts from the above U.S. policy baseline started to emerge in the early 1990s. The VAR results have shown that U.S. actions toward Taiwan, which include these shifts, significantly influenced the way Taiwan acted toward China in both periods. But *how* did these shifts exercise their influence? Did they reciprocally or inversely lead to Taiwan's actions toward China? By examining the empirical experiences from the early 1990s to mid-1995 and from mid-1995 to 2004, the following discussion will show that, as electoral competition took its shape in the island, especially when popular presidential elections were held every four years, the way the U.S. factor affected

---

quantity the U.S. provides Taiwan would depend on how much China's threat to Taiwan is; that the U.S. would help Taiwan match China's improvements in military capabilities. See Lilley 2003: 228- 229; Mann 1999: 127.

<sup>115</sup> In addition to the three points listed in Table 6-3, the other points of the six promises are: the U.S. would not alter the terms of the Taiwan Relations Act; it would not mediate between Taiwan and China; it would not alter its position about the sovereignty of Taiwan, namely, that the question was one to be decided peacefully by the Chinese themselves and would not pressure Taiwan to enter into negotiations with China. See Kennedy 2003: 33.



Taiwan's actions toward China was mainly shaped by Taiwanese politicians' concerns about their domestic political interests.

**Table 6-4.** The Cases

	Cooperative <i>TC</i>	Conflictual <i>TC</i>
Cooperative <i>UT</i>	<p>* In 1997-1998, the U.S. regularly invited Taiwan's national security officials for dialogues; the U.S. also signed an agreement with Taiwan to help the island's WTO bid. Taiwan responded by sending a delegation to China for the 2<sup>nd</sup> Koo-Wang talk.</p> <p>* In 2001- 2002, President Bush expressed his determination to defend Taiwan and upgraded the two countries' bilateral relations, Taiwan responded by showing the intention of expanding cross-Strait exchanges.</p>	<p>* In 1992-1995, the U.S. agreed to sell F-16s to Taiwan; it also sent a cabinet member to visit Taiwan and conducted the Taiwan policy review. Taiwan responded by campaigning for Lee Teng-hui's U.S. visit.</p>
Conflictual <i>UT</i>		<p>* President Clinton announced the "three No's" in 1998, Lee responded by declaring the "special state-to-state theory" in 1999.</p> <p>* In 2003, the U.S. asked Chen Shui-bian to stop his referendum campaign, Chen responded by launching the "defensive referendum" and a constitution-making campaign.</p>

Table 6-4 lists the cases that I am going to discuss in this section. These cases cover *all* outstanding events in which the U.S. either strengthened or curtailed its support for Taiwan (i.e. cooperative or conflictual *UT*) from the early 1990s to 2004. Then,

depending on how Taiwan responded in its China policy, they are again divided into “cooperative *TC*” and “conflictual *TC*.” Below, my discussion of these cases will follow the timeline along which they occurred.

### ***The early 1990s to mid-1995***

In the period from the early 1990s to mid-1995, the constraints imposed by the above U.S. policy baseline upon Taiwan seemed to loosen up when the U.S. increasingly extended cooperative actions toward Taiwan. Because this also occurred at the time when electoral competition started to dominate Taiwan’s domestic politics and when the Taiwanese identity began to surge among Taiwanese voters, U.S. cooperative actions toward Taiwan happened to play a role in encouraging Taiwan’s conflictual actions toward China. Thus, U.S. actions toward Taiwan had triggered Taiwan’s “inverse triangular response.”

It is against two background factors that the U.S. increasingly showed its friendly actions to Taiwan. First, the collapse of the Soviet Union in late 1991 had weakened the strategic reason for Nixon’s coalition-building with China in the early 1970s. In other words, the fact that the U.S. did not need China as much as it did in the 1970s and 1980s gave the U.S. more leverage to show stronger support for Taiwan or improve its relationship with the island after 1991. Second, Taiwan was on its way toward becoming a democratic country in the beginning of the 1990s. In contrast with the notorious image that China left itself in the aftermath of the 1989 Tiananmen incident, Taiwan’s endeavor in political liberalization and democratization had helped it build a good reputation among Americans. Specifically, the island won considerable respect and support from the U.S. Congress, which turned out to be a crucial actor in the event of Lee Teng-hui’s visit to the U.S.

Throughout the 1980s the U.S. kept its Taiwan policy within the framework of the above policy baseline. But since the beginning of the 1990s, some events that signified the shift of U.S. Taiwan policy toward a friendly direction have appeared. First, President George H. W. Bush announced the sale of 150 F-16 fighter jets to Taiwan at the General Dynamics factory in Fort Worth, Texas in September 1992. This was a significant action aimed at reinforcing Taiwan's security. Second, three months later, Bush sent a cabinet member, the U.S. trade representative Carla Hills, to Taipei to strengthen America's commercial position in the Taiwan market (Bush 2004: 223-224). Hills' visit apparently was a breakthrough in terms of U.S.-Taiwan contact levels. Most significantly, in September 1994 the Clinton administration finished a review on its Taiwan policy, which officially upgraded U.S. relations with Taiwan for the first time since 1979. This Taiwan policy review is mainly an improvement in the dimension of U.S.-Taiwan contact levels. For example, Taiwan can put "Taipei" in the titles of their U.S. offices; its diplomats can visit the offices of most U.S. officials; most U.S. cabinet-level officials are allowed to visit Taiwan; and Taiwan's top officials are permitted to make transit stops on U.S. territory.<sup>116</sup>

---

<sup>116</sup> According to Richard C. Bush (2004: 226- 27), the Clinton administration came to the following conclusions in the policy review:

1. The names of Taiwan's offices in the U.S. were changed from "the Coordination Council for North American Affairs" to "the Taipei Economic and Cultural Representative Office" (for the office in Washington, DC) and "Taipei Economic and Cultural Office" (for those in other U.S. cities).
2. Taiwan's diplomats could visit U.S. officials in their offices, except for the State Department, the Old Executive Office Building, and the White House.
3. U.S. cabinet-level officials in economic and functional agencies were permitted to visit Taiwan at an appropriate time.
4. Taiwan's president, vice president, premier, and vice premier would be allowed to make low-profile transit stops in the U.S.
5. Although U.S. policy since 1979 would not support Taiwan's membership in international organizations where statehood was a prerequisite, it would support ways for its "voice to be heard" in those institutions and also support its membership in organizations where statehood was not a prerequisite.

While U.S.-Taiwan relations started to improve on the international front, Taiwanese politicians also faced the intensifying electoral competition and the resulting awakening of Taiwanese consciousness on the domestic scene. As I mentioned in Chapter 4, the DPP's campaign for U.N. membership had stimulated the Taiwanese people's craving for Taiwan's complete international status and thus created pressures upon the ruling KMT government. Consequently, in order to keep the KMT's electoral advantage, President Lee switched his focus to Taiwan's diplomatic relations after settling the issues of political reforms and securing his power base within the KMT. As Lee was about to take bold initiatives in his diplomacy, he took advantage of the friendly actions that the U.S. had showed to Taiwan since the early 1990s, particularly the support from the U.S. Congress.

As the promoter of the Taiwan Relations Act, the U.S. Congress has been an important actor in U.S.-Taiwan relations since 1979. Not surprisingly, it was also a driving force behind the United States' 1994 Taiwan policy review. Earlier in May 1994, when Lee Teng-hui led a Taiwan delegation to Central America and South Africa, Taiwan asked for U.S. permission to make a transit stop that would have included an overnight stay in Hawaii. But the Clinton administration decided that Lee's delegation could only have a refueling stop at Hickham Air Force Base and could not go out of the Base for the night. The administration's decision annoyed not just Lee, who refused to get off the plane, but also Taiwan's supporters in Congress. In response to this incident, these congressmen pressured the Clinton administration to improve U.S.-Taiwan relations as well as pass legislation that would require the administration to grant Lee a visa in the future should he wish to come to the U.S (Bush 2004: 225- 226; Chang 2000: 120- 126). As a response to the congressional demand, in September 1994 the Clinton administration released the Taiwan policy review.

The strong support that the U.S. Congress showed for Taiwan also motivated Lee to work on his visit to the United States prior to his joining in Taiwan's 1996 presidential race. He hired an influential lobbying firm in D.C., Cassidy & Associates, to lobby U.S. media and Congress about this issue. For Taiwan, which had been struggling with an isolated international status since the 1970s, Lee's visit to the world's most powerful nation in the capacity of Taiwan's president would be an unprecedented diplomatic success and thus a great advantage for him in the presidential election. But for China, Lee's U.S. trip would be an action of a sovereign state and therefore a clear attempt on the part of Taiwan to pursue its independence. Knowing that Lee's action would be deemed as extremely provocative by China, the U.S. executive branch also strongly opposed Lee's visit. But the work done by Cassidy & Associates proved to be successful. A bill entitled "Expressing the sense of the Congress regarding a private visit by President Lee Teng-hui of the Republic of China on Taiwan to the United States" was passed in U.S. House of Representatives on May 2, 1995 with 396 Yeas and 0 Nays, and then passed in the Senate on May 9<sup>th</sup> with 97 senators for it and one against it.<sup>117</sup> Meanwhile, some influential media outlets, such as *Washington Post* and *New York Times*, also urged the Clinton administration to approve Lee's visit.<sup>118</sup> The pressures from Congress and public opinion eventually forced the executive branch to give in. On May 22<sup>nd</sup> the State Department declared that President Clinton had agreed to let Lee visit the U.S. in June in the private capacity of Cornell University's distinguished alumnus.<sup>119</sup> On June 7<sup>th</sup>, Lee arrived in the U.S.

---

<sup>117</sup> See the record of Roll Call Votes on the Library of Congress's website <http://thomas.loc.gov/>.

<sup>118</sup> See *United Daily News*, May 11, 1995, p.2 and May 14, 1995, p.4.

<sup>119</sup> *Ibid.*, May 23, 1995, p.1.

### ***Mid-1995 to 2004***

In the period from mid-1995 to 2004, U.S. actions toward Taiwan mainly led to Taiwan's "triangular reciprocity." This triangular interaction pattern is associated with the fact that, during this period, presidential elections turned out to be a major seasonal factor in Taiwan's domestic politics. After the 1995 Strait missile crisis that resulted from Lee's U.S. visit, Washington started to realize the importance of keeping Taipei from provoking Beijing. Consequently, it would criticize against or warn of any initial provocative actions that were directed by Taiwan toward China. However, when a presidential election approached, Taiwanese politicians continued to launch aggressive campaigns after receiving these confrontational actions from the U.S. In addition to the need to appease the rising Taiwanese identity among the voters, these politicians chose to do so because they did not want to back down since that would only show their weakness vis-à-vis external pressures. On the other hand, when the presidential elections ended, Taiwanese leaders would pay more attention to the U.S. factor in order to sustain the two countries' bilateral relationship and fix the damage of the relationship that was caused by Taiwan's defiance to U.S. warnings during election seasons. At this time, U.S. actions toward Taiwan would generally be cooperative rather than conflictual since not much disagreement was going to exist between the two countries when Taiwan's presidential elections were distant. In the mean time, Taiwan's leaders would also show cooperative actions toward China to meet Washington's expectation for a stable and calm cross-Strait relationship. Thus, the pattern of "triangular reciprocity" also occurred during this period of time as Taiwan directed friendly actions toward China after the U.S. directed cooperative actions toward Taiwan.

Some examples illustrate Taiwan's "triangular reciprocity" during this period of time. First, in 1997 and 1998, the off-season from presidential elections in Taiwan, it was

common to see Taipei respond to Washington's cooperative actions toward it with friendly actions toward Beijing. During this period, U.S. cooperative actions toward Taiwan were exemplified by the fact that ever since the March 1996 missile crisis the U.S. had regularly invited Taiwan's national security officials to hold high-level meetings. The contact at such levels was unprecedented after the two countries' diplomatic ties were cut in 1979. These meetings were usually held in New York every six months and were attended by the U.S. Under Secretary of State for Political Affairs, the U.S. Deputy National Security Advisor, and Taiwan's Secretary General of the National Security Council.<sup>120</sup> The meetings then became an institutionalized channel for the two countries' dialogues on important issues that involves cross-Strait relations.

Another event signifying U.S. cooperative actions toward Taiwan occurred in February 1998, when Taiwan reached a market-opening agreement with the U.S. By signing the agreement with Taiwan, the U.S. had helped clear the way for Taiwan to join the World Trade Organization (WTO), the global trade body. More significantly, through this event the U.S. also helped Taiwan advance considerably in terms of the island's attempt to participate in the international community.

In response to the above friendly actions from the U.S., Taiwan started to send conciliatory signals toward China during this off-season from presidential elections. For example, on June 23, 1997, the chairman of Taiwan's Mainland Affairs Council said Taiwan was willing to talk with China about political issues and cross-Strait direct links. On September 1, 1997, President Lee said he would like to visit China to exchange opinions with the Chinese leader. On October 30, 1997, the Mainland Affairs Council called for the reopening of cross-Strait talks. In December of that year, President Lee also expressed that Taiwan would be glad to reopen cross-Strait dialogues unconditionally.

---

<sup>120</sup> See *China Times*, January 30, 1999, page unknown; March 25, 1999, page unknown.

Later on, both Taiwan's premier and the Mainland Affairs Council repeated the same idea again in January 1998.<sup>121</sup> In October 1998, Taiwan eventually sent its delegation to China to hold the second Koo-Wang Talk, the meeting between Taiwan's and China's top negotiators Koo Chen-fu and Wang Daohan.

In 1999, Taiwan again entered the presidential election season, and as I mentioned in Chapter 4, President Lee declared his "special state-to-state" theory in July when interviewed by the Deutsche Welle Radio. Lee's "theory" was a strong provocation of China, since it implied future attempts to pursue Taiwan's independent status. To some extent, it could be regarded as a response to a negative shift in U.S. policy toward Taiwan.

This shift occurred in the dimension of Taiwan's status.<sup>122</sup> In October 1997, Chinese President Jiang Zemin arrived in the U.S. for his first state visit. On October 31,

---

<sup>121</sup> See the website of Mainland Affairs Council for the above events ( <http://www.mac.gov.tw/> ).

<sup>122</sup> There are two factors contributing to the shift in this respect. First, Lee's U.S. visit led to the worsening of both U.S.-China relations and Taiwan-China relations. Consequently, the U.S. executive branch was unhappy about Lee. At first they were not pleased by the fact that Lee tried to manipulate the U.S. Congress and public opinion on the issue of his U.S. visit. For example, they sent B. Lynn Pascoe, the director of American Institute in Taiwan's Taipei Office, to ask Lee to give up Taiwan's lobbying efforts on Lee's U.S. visit. Pascoe told Lee that these efforts could only lead to the deterioration of Taiwan's relations with the State Department, but Lee refused. Then the State Department was infuriated by the fact that Taiwan broke its promise to keep Lee's Cornell speech low key. Taiwan agreed in advance that Lee's speech would not touch any political subjects, but when Lee delivered his speech on June 9<sup>th</sup> at Cornell University, he repeatedly mentioned "Taiwan" or the "Republic of China," which drew China's strong protest right away (Chang 2000: 125- 128). Most importantly, because Lee's action not only resulted in the Strait missile crises and thus the instability of the East Asian region and also indirectly brought the United States into the Strait missile crisis in March 1996, some media and bureaucrats in the State Department began to regard Lee as a trouble-maker for the United States (Su 2003: 51; Wang 2005: 189).

Second, after President Clinton ordered two carrier battle groups to deploy around the Taiwan Strait area during the March 1996 missile crisis, the U.S. became clearly aware of the danger and possibility of getting involved in a military conflict with China over the Taiwan issue. This awareness made the Clinton administration realize the urgency of mending the U.S.-China bilateral relations that had been damaged by Lee's U.S. visit, as well as the necessity to ease the two great powers' tense relationship which was created by the military face-off in March 1996. It is based on this realization that the U.S. began to adopt a strategy of "engagement" in its China policy, which focused mainly on U.S.-China summit meetings and dialogues to rebuild the two nations' stable relations (Su 2003: 49). (In fact, U.S. efforts to repair its relations with China had started as early as in October 1995, which was two months after the first Strait crisis ended, when President Clinton met Chinese President Jiang Zemin in New York. But the two countries' relations turned tense again during the March 1996 Strait crisis. See Sutter 1998: 83, 91.) In the meantime, the Clinton administration chose the Taiwan issue as a bargain chip to fix U.S.-China relations. Perhaps to



the day after Jiang's departure from Washington, State Department spokesman James P. Rubin mentioned in a press conference that "We don't support a two-China policy, we don't support Taiwan independence, and we don't support [Taiwan's] membership in organizations that require you to be a member state."<sup>123</sup> The United States had declared in the 1982 Communiqué that it would not pursue a policy of "two Chinas" or "one China, one Taiwan," but Rubin's statement was the first time the U.S. publicly announced that it would "not support" Taiwan independence and Taiwan's membership in international organizations for which statehood is a requirement. The statement apparently shows that, on the issue of Taiwan's status, the U.S. had moved closer to China's position of "opposing" both Taiwan independence and Taiwan's bid for United Nations' membership. This new change in U.S. policy toward Taiwan was repeated later by U.S. Secretary of State Madeleine K. Albright and National Security Adviser Samuel R. Berger,<sup>124</sup> and eventually President Clinton himself when he visited Shanghai on June 30, 1998. He said:

I had a chance to reiterate our Taiwan policy, which is that we don't support independence for Taiwan, or two Chinas, or one Taiwan- one China. And, we don't believe that Taiwan should be a member of any organization for which statehood is a requirement.<sup>125</sup>

This is called Clinton's "three No's policy." Therefore, Lee's "special state-to-state" theory, which was a conflictual action toward China, was essentially a response to the above unfavorable shift in U.S. Taiwan policy.

---

punish Taiwan and appease China at the same time, the U.S. shifted its Taiwan policy toward a direction that was against Taiwan.

<sup>123</sup> See *United Daily News*, November 2, 1997, p. 2; also Wachman 2001: 8.

<sup>124</sup> See *United Daily News*, July 1, 1998, p. 1.

<sup>125</sup> *Ibid.*; also Kau 1999: 3.

Moreover, when Lee faced mounting U.S. pressures asking him to take his “theory” back and return to the “one-China” policy, he only complied with Washington’s request superficially.<sup>126</sup> On July 13<sup>th</sup>, AIT’s Taipei director Darryl N. Johnson met with Lee in the presidential office to tell Lee that the U.S. still supported the “one China” policy. That same day and the following day, the U.S. State Department also repeatedly reiterated the United States’ “one China” policy and the “three No’s policy.” Meanwhile, some U.S. congressmen, including those who had been friendly toward Taiwan in the past, also expressed their opposition to Lee’s “theory.” On July 21<sup>st</sup>, President Clinton mentioned that U.S. policy toward cross-Strait relations consisted of three pillars, which included the “one China” policy, cross-Strait dialogue, and peaceful resolution to cross-Strait differences. On July 22<sup>nd</sup>, AIT’s chairman Richard C. Bush arrived in Taipei on behalf of U.S. Secretary of State Madeleine K. Albright to ask Taipei go back to the position of “one China, with respective interpretations” that initially appeared in the “1992 Consensus.”<sup>127</sup>

---

<sup>126</sup> The one-China policy, which refers to the U.S. position in the 1972 Communiqué that there is one China and that Taiwan is a part of China, is not just the consensus shared by both China and the U.S. on the Taiwan issue but is also regarded by the U.S. as a bedrock principle that stabilizes cross-Strait relations, particularly after the 1995 and 1996 missile crises. Clinton’s “three No’s policy” in 1998 is just another U.S. endeavor to strengthen this policy’s capacity of maintaining the region’s stability. Therefore, when the chairman of Taiwan’s Mainland Affairs Council, Su Chi, interpreted Lee’s “special state-to-state theory” in a press conference on July 12, 1999 by saying that Taiwan would no more use the term “one China,” the Clinton administration was immediately shocked and angered. Pressures from Washington soon arrived in Taipei.

Lee’s “theory” led to the immediate action by the U.S. also because it caused instability in Taiwan-China relations right away. In the days that followed Lee’s talk, China suspended Wang Daohan’s scheduled October visit to Taiwan, intensely criticized Lee’s attempt to split China’s sovereignty, and warned Lee to stop any action that tries to secede from the Chinese territory. In the meantime, Chinese fighter jets also repeatedly crossed the imaginary middle line of the Taiwan Strait that separates Taiwan from China, which almost triggered a conflict with Taiwan’s military aircrafts. Military exercises were reported to be conducted along Chinese coast too.

<sup>127</sup> The “1992 Consensus” means the consensus shared by both China and Taiwan in 1992 regarding the interpretations of the “one-China principle.” Because their 1992 administrative talk in Hong Kong on the certification of both sides’ official documents was initially stuck when China insisted that the certification was “China’s internal affairs,” Taiwan suggested that both sides of the Strait verbally interpret the “one-China principle” in their respective ways. This suggestion was accepted by China. See Wang 1993, pp. 247- 253; Su and Cheng 2002, pp. 3- 6.

On October 10<sup>th</sup>, Lee responded to U.S. pressures by saying in his National Day speech:

Although both sides of the Strait have different opinions about the ‘one China’ policy, *they should still seriously face the fact that cross-Strait relations are special state-to-state relations*, and conduct constructive dialogues on the basis of this fact. Through separate but equal governance as well as peaceful competition, they should also pursue peaceful unification in the future.<sup>128</sup>

Although Lee mentioned the “one China” policy and “unification” in the speech, he still insisted on the position of his “theory” solidly. In other words, Lee still responded to U.S. conflictual actions (i.e. pressures) toward Taiwan by showing the actions that China would deem conflictual. At a time when the 2000 presidential election was around the corner, Lee’s insistence is understandable, particularly when a survey showed that 66% of the respondents supported Lee’s “theory.”<sup>129</sup>

Taiwanese politicians’ political craze in the election season subsided after Chen Shui-bian was sworn in as president in May 2000. Because the new leader would pay more attention to U.S. expectations for a stable cross-Strait relationship, it was not unusual for Taiwan to respond to U.S. cooperative actions toward it with friendly gestures toward Beijing in this off-season from presidential elections. Since his first day as president, Chen took care of the U.S. factor very cautiously. For example, he pledged to follow the “four No’s” in his inaugural speech on May 20, 2000,<sup>130</sup> which was a result of his negotiation with the U.S. about the tone of his China policy.<sup>131</sup> More importantly,

---

<sup>128</sup> See *United Daily News*, October 10, 1999, p. 1. Emphasis is added.

<sup>129</sup> The survey was conducted by China Credit Information Service in the end of August 1999; the results were released by Mainland Affairs Council. See *China Times*, September 4, 1999, page unknown.

<sup>130</sup> Chen pledged that as long as China did not make any attempt to invade Taiwan, then he would not declare Taiwan’s independence, not change the national title, not push for the inclusion of the so-called “state-to-state theory” in the Constitution, and not promote a referendum to change the status quo in regards to the question of independence or unification. In addition, he added that the National Unification Guidelines and National Unification Council would not be abolished either.

<sup>131</sup> See note 23 in Chapter 5.

the U.S. started to show intense support for Taiwan after George W. Bush took over the presidency. Thus, Chen's conciliatory gestures toward China in 2001 and 2002 turned out to fit the response pattern of "triangular reciprocity."

The election of President George W. Bush in 2000 marked another shift in U.S. Taiwan policy. This shift occurred against the backdrop of growing Sino-U.S. tensions. The signs of the two powers' tensions could be traced back to Bush's election campaign, during which he defined China as the United States' "strategic competitor" instead of "strategic partner" which the Clinton administration used to refer to China.<sup>132</sup> On April 1<sup>st</sup>, 2001, the potential U.S.-China tension that was caused by Bush's election burst out when a U.S. spy plane collided with a Chinese F-8 fighter jet mid-air over the South China Sea.<sup>133</sup> Less than a month later, a significant change in U.S. Taiwan policy was taking shape with the occurrence of two other events. On April 23<sup>rd</sup>, Bush approved an arms sales package for Taiwan, which was the largest U.S. arms sale to Taiwan since the F-16 sale in 1992.<sup>134</sup> The next day on April 24<sup>th</sup>, when interviewed by ABC's "Good Morning America," Bush said that the United States would do "whatever it took to help Taiwan defend herself" in the event of attack by China.<sup>135</sup> These two events signified the

---

<sup>132</sup> Traditionally, the GOP is more anticommunist than the Democratic Party (Bush 2005: 246); in addition, the opposition party's presidential candidates (e.g. Bush in this case) tend to attack the incumbent administration's China policy in their election campaigns (Wu 2000a: 16- 18).

<sup>133</sup> The pilot of the Chinese plane was missing after the collision, and the crew on U.S. plane made an emergency landing on China's Hainan Island. China accused the U.S. of infringing on China's sovereignty and demanded an apology from the U.S., but the U.S. refused and instead asked China to return U.S. plane and crew as soon as possible. See *ibid.*, April 1, 2001, p. 1; April 5, 2001, p. 1.

<sup>134</sup> The sales included four 1970s vintage Kidd class destroyers equipped with upgraded radar systems, eight diesel-powered submarines, and up to 12 P-3 Orion subhunting surveillance planes. See CNN's website <http://archives.cnn.com/2001/ALLPOLITICS/04/24/bush.taiwan.abc/sale.html>.

<sup>135</sup> CNN reports, "Asked in the ABC interview if Washington had an obligation to defend the Taiwanese in the event of attack by China, which considers the island a renegade province, Bush said: 'Yes, we do ... and the Chinese must understand that. Yes, I would.' When asked whether the United States would use 'the full force of the American military,' Bush responded, 'Whatever it took to help Taiwan defend herself.'" See CNN's website <http://archives.cnn.com/2001/ALLPOLITICS/04/24/bush.taiwan.abc/>.

Bush administration's determination to strengthen Taiwan's defense and security in the face of China's military threat. Later on, when Bush visited China in February 2002, he repeatedly mentioned the importance of the Taiwan Relations Act and the United States' defense commitment to Taiwan but said no words about the 1972, 1979, and 1982 Communiqués that defined U.S.-China relations (Sutter 2002: 4).

In addition to these commitments regarding Taiwan's security, the Bush administration also substantially increased contact between the U.S. and Taiwan to the level that is close to an official one. For example, in August 2000 when Taiwan's new president Chen Shui-bian made a transit stop in Los Angeles, he was restricted by the Clinton administration to stay in the hotel without being able to conduct any public activities. Under the pressure from the executive branch, some U.S. congressmen also cancelled their meetings with Chen. But in May 2001 when Chen made another transit stop in the U.S., he was allowed by the Bush administration to visit New York and Houston, where he met with some U.S. politicians and businessmen (Sutter 2002: 5; Su 2003: 237- 238; Hickey 2004: 471). In March 2002, Taiwan's Defense Minister Tang Yiau-ming visited Florida for a business meeting, during which he was able to talk to U.S. Deputy Secretary of Defense Paul Wolfowitz. Tang is the first Taiwanese Defense Minister to be admitted to visit the U.S. since 1979 (Hickey 2004: 467). In the next few years, Chen and Taiwan's vice president Annette Lu also made some other transit stops within U.S. borders; Chen's wife even visited Washington D.C. in September 2002 to attend a ceremony. Moreover, in September 2002 Bush signed into law the Foreign Relations Authorization Act of Fiscal Year 2003. The law not only permits incumbent diplomats to accept assignments in Taiwan but also expresses the "sense of the Congress" that U.S. flag should be displayed at the "unofficial" U.S. embassy in Taiwan (that is, the American Institute in Taiwan) and at the residence of the AIT director "in the same

manner as U.S. embassies, consulates and official residences throughout the world.” On September 11, 2002, the U.S. flag was flown at the AIT’s Taipei office for the first time since 1979 (Hickey 2004: 471- 472).

In response to these friendly U.S. actions, Chen acted in an extraordinarily conciliatory way toward China in the first half of his first term. On the one hand, he expanded the scope of cross-Strait exchanges. For example, in late 2001 he started to reverse Lee Teng-hui’s policy of restricting mainland investment (i.e. the “no haste, be patient” policy) by implementing his own “active opening, effective management.” Under the guidance of this new policy, in October 2001 Taiwan agreed to let eight banks to open their offices in mainland China. One month later, the US\$50 million cap on any single mainland investment project was removed. At the same time, businessmen were permitted to invest in more diverse industries or sectors, and projects with less than US\$20 million could be easily approved by the government. On the other hand, he also sent China friendly signals about political issues. For example, when meeting with AIT’s chairman Richard C. Bush on January 28<sup>th</sup>, 2002, Chen said Taiwan’s position on cross-Strait relations was cooperative rather than confrontational, and that “[Taiwan’s] cross-Strait policies would never change because of the DPP’s victory in the election.” On May 9<sup>th</sup>, 2002, he mentioned that cross-Strait dialogues must be reopened so that no misperception and misunderstanding would occur between Taiwan and China. He also expressed that he would like to visit China to reopen such dialogues. At the same time, he declared that “the political integration across the Strait must begin with cross-Strait economic and cultural integration; this is a policy goal that would never change.” On January 1, 2003, he suggested Taiwan and China “establish a peaceful and stable framework of interaction.”<sup>136</sup>

---

<sup>136</sup> For these events, see the website of Mainland Affairs Council ( <http://www.mac.gov.tw/> ); *China Times*, May 10, 2002, page unknown.

In 2003, Taiwan was again entering the hot season of the presidential election. As I have discussed in Chapter 4, Chen Shui-bian aggressively campaigned on the referendum issue throughout all of 2003 and at the beginning of 2004 in order to consolidate his electoral support. As Chen's referendum campaign was a provocation of China, another pattern of "triangular reciprocity" seemed to take place since every time the U.S. warned Chen against pushing the envelope Chen would choose to continue his campaign resolutely.

U.S. pressures against Chen started to emerge in June 2003. When Bush met with Chinese President Hu Jintao in Evian that month, Bush mentioned that the U.S. would not support Taiwan independence. This statement was regarded as Bush's unhappy response to Chen's referendum campaign.<sup>137</sup> Later in the same month, the director of AIT's Taipei Office Douglas H. Paal was reported to have told Chen that the U.S. did not want Taiwan to hold any referendum on any issue, although Paal denied the report.<sup>138</sup> AIT's chairwoman Therese Shaheen also met with Taiwan's Foreign Minister Eugene Chien in New York to express the United States' concerns about the referendum issue.<sup>139</sup> In September, U.S. Deputy Secretary of State Richard L. Armitage, who used to be friendly toward Taiwan, told the press that holding any referendum would be of no help to Taiwan.<sup>140</sup> However, Chen responded to these U.S. concerns by saying on September 28<sup>th</sup> that he would promote the birth of a new constitution (which strongly suggests the pursuit of Taiwan-independence). The U.S. responded immediately. State Department spokesman Richard Boucher repeated Chen's "four No's" commitment, saying that the

---

<sup>137</sup> *United Daily News*, June 12, 2003, p. A13.

<sup>138</sup> *Ibid.*, June 21, 2003, p. A1; June 26, 2003, p. A4.

<sup>139</sup> *Ibid.*, June 25, 2003, p. A3.

<sup>140</sup> *Ibid.*, September 19, 2003, p. A2.

U.S. took it very seriously and expected it to be followed faithfully.<sup>141</sup> Then U.S. National Security Advisor Condoleezza Rice warned that no one would be allowed to change the status quo in the Taiwan Strait.<sup>142</sup> A few days later, President Bush also told Chinese President Hu Jintao that the U.S. would not support “Taiwan’s moving toward independence” when the two leaders met in Bangkok.<sup>143</sup> Even so, in late October Chen still announced a plan of holding a referendum on the making of a new constitution.<sup>144</sup> In November, Randy Schriver, the Deputy Assistant Secretary of State for East Asian and Pacific Affairs, repeated again that the Bush administration would not support Taiwan’s independence.<sup>145</sup> Chen responded by announcing at the end of November that, in order to defend the country’s sovereignty and security, he would follow Article 17 of the newly-passed Referendum Law to hold the so-called “defensive referendum” on the same day as the upcoming presidential election.<sup>146</sup>

Chen’s stubborn attitude annoyed Bush in the end. On December 9<sup>th</sup>, 2003 Bush decided to send Chen a stronger signal. When reaffirming the United States’ “one China” policy during his meeting with Chinese Premier Wen Jiabao at the White House, Bush said:

We oppose any unilateral decision, by either China or Taiwan, to change the status quo. ... And the comments and actions made by the leader of

---

<sup>141</sup> Ibid., September 30, 2003, p. A1.

<sup>142</sup> Ibid., October 16, 2003, p. A11.

<sup>143</sup> Ibid., October 21, 2003, p. A2; also see Su 2003: 342.

<sup>144</sup> Ibid., October 26, 2003, p. A3.

<sup>145</sup> Ibid., November 22, 2003, p. A4.

<sup>146</sup> Article 17 of the Referendum Law says, with the Executive Yuan’s resolution, the president can hold a referendum on national security issues when any external threat is able to interfere with the country’s sovereignty. Chen argued Taiwan’s sovereignty could be changed at any time because the external threat it faced was in the “present progressive tense.” See *ibid.*, November 30, 2003, p. A1. Shortly before Chen’s announcement, the Referendum Law that approximates to the opposition parties’ (the Pan Blue coalition) version was passed in Legislative Yuan with the dominance of Pan Blue legislators.



Taiwan indicate that he may be willing to make decisions unilaterally to change the status quo -- which we oppose.<sup>147</sup>

For Chen, no U.S. message could be clearer than Bush's rebuke against "the leader of Taiwan." But because a complete surrender to U.S. pressures could result in a high domestic audience cost for Chen in the upcoming presidential election,<sup>148</sup> Chen chose to insist on holding the so-called "defensive referendum" along with the presidential election, though framing the referendum's questions in a lower key.<sup>149</sup> Therefore, Chen did not totally surrender to U.S. pressures. Rather, he still responded by acting aggressively toward China.

## CONCLUSION

The above analysis leads to two conclusions. First, there was still a limit for the United States to successfully stop Taiwan from directing conflictual actions toward China. The U.S. has been the most crucial third party in Taiwan-China relations in the last five decades. My discussion in this chapter shows that U.S. actions or policies toward Taiwan sometimes could still contribute to Taiwan's responses from which the island took provocative actions against China. This situation happened in the early 1990s when the U.S. directed a series of favorable actions toward Taiwan as well as when it warned Taiwan against any provocative actions during the island's presidential election seasons.

---

<sup>147</sup> See CNN's website (<http://edition.cnn.com/2003/ALLPOLITICS/12/09/bush.china.taiwan/index.html> ).

<sup>148</sup> According to Fearon (1994), a domestic audience cost means the domestic political punishment that a state leader suffers when he publicly threatens a foreign actor but subsequently backs down in an international crisis. In democracies the most common form of a domestic audience cost is the leader's loss in a reelection.

<sup>149</sup> The questions were, first, whether Taiwan should acquire more advanced anti-missile weapons to strengthen the nation's defensive capabilities; second, whether Taiwan should seek talks with China on the establishment of a "peace and stability" framework for cross-Straits interaction. *United Daily News*, January 17, 2004, p. A1. The referendum was held on March 20, 2004. Both questions received responses from less than the required 50% of voters and were therefore rendered void.

Second, the reason there was a limit on U.S. capability to block Taiwan's aggressive actions against China is associated with domestic electoral competition in Taiwan. During the seasons of presidential elections Taiwanese politicians would regard their domestic political interests as more important than the U.S. factor. Consequently, as the Taiwanese identity turned stronger and stronger, they would still resort to aggressive campaigns even though the U.S. already sent warnings to Taiwan. In other words, the attempt to win elections and avoid the audience cost that might be caused by giving in to U.S. pressures would prompt Taiwanese leaders to respond to U.S. confrontational actions by continuing their conflictual actions against China.

These conclusions highlight this chapter's contribution to the literature, that is, the nature of a third party's influence should be evaluated in the context of regional countries' domestic politics. Without taking these countries' domestic politics into consideration, it would be more difficult to judge the effectiveness of a third party's efforts of conflict management.

## **Chapter 7**

### **Conclusion**

#### **FINDINGS**

Taiwan's relations with China were full of ups and downs from 1987 to 2004. In this dissertation I explore Taiwan's role in the dramatic development of cross-Strait relations. More specifically, I discuss the effects of Taiwan's democratic transition and consolidation, cross-Strait commerce, and the United States' Taiwan policy on Taiwan's actions toward China during the period. By applying the methods of both case studies and VAR time-series analysis, this dissertation produces the following findings.

First, when President Lee Teng-hui took over power in the late 1980s, he initiated several domestic political reforms while continuing Chiang Ching-kuo's liberalization of Taiwan's China policy in order to secure and strengthen his power base within the KMT. Lee's rational decision led to the appearance of a peaceful China policy during most of the period of Taiwan's transition into democracy.

Second, with national identity as the major political cleavage in Taiwan, politicians found new incentives for mobilizing electoral support on national identity as elections approached. This was particularly so when elections became an institutionalized mechanism of political competition at the end of Taiwan's political reforms. The result was the emergence of more conflictual actions toward China.

Third, after the mid-1990s, the economic exchanges across the Strait were unable to restrain Taiwan's conflictual actions toward China. This is because Taiwanese leaders' attempt to pursue electoral interests had overridden the policy preferences of those

businessmen who were involved in cross-Strait commerce. With Lee Teng-hui as a strongman and Chen Shui-bian increasingly relying on party activists, they were able to ignore businessmen's demands for more cross-Strait exchanges and cross-Strait stability. Meanwhile, they could also appeal to the rising Taiwanese identity with aggressive actions toward China.

Fourth, U.S. actions toward Taiwan could not successfully stop Taiwan's aggressive actions toward China either. This is because in order to avoid the audience cost, Taiwanese politicians were less likely to give in to U.S. pressures during election seasons.

These findings lead to two conclusions. First, we have to look at Taiwan's domestic politics to understand the island's role in cross-Strait relations from 1987 to 2004. Realists tend to explain international relations from systemic perspectives. By doing so, they are inclined to assume that states are unitary actors and ignore the effects that domestic politics might exercise on interstate relations. This dissertation aims at supplementing the insufficiency of this realist approach. It shows that domestic political factors such as regime transition, electoral competition, and the cleavage of national identities are able to influence a country's foreign policy and thus its relations with other countries.

Second, Taiwanese politicians' pursuit of domestic political interests is the key to understanding the changes of Taiwan's China policy during and after its democratic transition. Consequently, it is also the key for us to understand the failure of the pacifying potential of both cross-Strait commerce and U.S. Taiwan policy. At the beginning of the democratic transition, Lee Teng-hui's concern for his power contributed to the appearance of a peaceful China policy. Later on, when electoral competition dominated the rhythm of Taiwan's politics and when Taiwanese identity surged among voters,

politicians' desire to win elections instead encouraged them to engage in confrontational campaigns against China. At the same time, it was also this desire that drove them to neglect both Taiwanese businessmen's and the United States' expectations for cross-Strait stability.

## CONTRIBUTIONS

With the study of Taiwan's case, this dissertation also makes contributions to several theoretical debates in the literature.

First, scholars disagree with each other on whether or not a democratizing state is likely to be conflict-oriented in its foreign policy. My research shows that a country that is experiencing democratic transition can still act peacefully toward other countries. During its transition from authoritarianism to democracy, Taiwan's actions toward China were generally peaceful. As Chapter 3 shows, this is mainly a result of Lee Teng-hui's rational calculations shortly after he took over power. This fact highlights the important role that a state leader plays in the connection between a country's democratization and its foreign policy.

Incidentally, although Taiwan's actions toward China turned conflictual after the mid-1990s, the mechanism behind these actions is different from what Mansfield and Snyder argue. According to Mansfield and Snyder, international conflicts are most likely to occur during an *incomplete* transition from autocracy toward democracy. In such an incomplete transition, state institutions are too weak to guarantee elites a soft landing. Therefore, elites tend to resort to playing the nationalist card to amass their popular support. The emergence of Taiwan's conflictual actions toward China is different. First, in terms of the underlying mechanism, these conflictual actions did not emerge from elites' uncertainty about their political future. On the contrary, when such uncertainty did exist in the beginning of Taiwan's democratic transition, Lee Teng-hui decided to adopt a

more conciliatory China policy. Particularly, after the 1996 presidential election and ensuing elite settlement, the sense of uncertainty among most elite factions was no longer strong. Rather, as Chapter 4 shows, it was the rising Taiwanese identity among the people in Taiwan, which to a large extent grew out of Taiwan's isolated international status, that motivated politicians to embark on aggressive campaigns in highly competitive elections. Second, in terms of context, these conflictual actions occurred when Taiwan had transformed into a democracy. Even if Taiwan's democracy was not fully consolidated around the mid-1990s, it was hardly an incomplete democracy or a mixed regime, which according to Mansfield and Snyder is often war-prone. This is because after the mid-1990s Taiwan's democratic institutions, such as free and regular elections, worked smoothly throughout Taiwan's transition into democracy. More importantly, as the two elite settlements show, elites were able to follow tacitly the democratic rules when competing with each other. This not only protected and strengthened Taiwan's young democratic institutions but also significantly advanced Taiwan's democratic consolidation.<sup>150</sup>

Second, scholars also disagree on commercial liberalism's explanatory power. My dissertation indicates that there is indeed a limit when applying commercial liberalism to Taiwan's case. Commercial liberalism claims free trade (or economic exchanges) among nations can reduce the likelihood of international war by generating substantial commercial interests. Chapter 5 shows cross-Strait economic exchanges do foster pacifying potential, that is, the Taiwanese business community which profits from cross-Strait commerce and which prefers a peaceful and friendly China policy. But eventually their preferences were still overridden by politicians' consideration of political interests.

---

<sup>150</sup> Mansfield and Snyder also admit that Taiwan's democratic transition was smooth and peaceful because the island was institutionally developed. (2005: 270)

At first, it was Lee Teng-hui's strong-man status that strengthened Lee's ignorance of businessmen's policy preferences. Later, Chen Shui-bian's reliance on DPP party activists for his political career also stopped him from hearing businessmen's calls. The cases of Lee and Chen point out that some non-institutional (or contingent) factors can still be important. Chen's case is particularly significant since it is in contrast with some commercial liberals' (such as Papayoanou 1996, 1997) argument that median economic interests can act as a restraint on or incentive for state leaders. Instead, the DPP party activists or fundamentalists have played a big role there, which pulled policy outcomes away from the median. This fact demonstrates that it is the partisan interests, not the median interests, that dominate the making of Chen's China policy.

Third, scholars also debate whether a third party can successfully manage a regional conflict. Chapter 6 shows that such achievement of a third party will depend on the regional state's domestic context. In the case of Taiwan, the United States' effectiveness in stopping Taiwan from initiating confrontational actions toward China was related to the election cycle in Taiwan. When Taiwan's election season neared and when the U.S. tried to restrain Taiwan's provocative actions toward China, Taiwanese politicians tended to continue their provocative actions because giving in to U.S. pressures would only show voters their weakness and consequently cost their victory in elections. In this case, U.S. efforts to stabilize the cross-Strait relations would only lead to a negative result. On the other hand, when elections were over, Taiwanese leaders would switch their focus from domestic concerns to maintaining U.S.-Taiwan relations, including extending cooperative gestures toward China to meet U.S. expectations. Therefore, this would be the time that the United States' management of stability in the Strait could lead to a positive result. In sum, this chapter has shown that, depending on the regional state's domestic politics, a third party's management of a regional conflict

could sometimes be successful, and sometimes not. Thus, when discussing a third party's role in a regional conflict, people should also take the domestic politics of regional states into account.

### **CONCLUDING REMARKS**

In the near future, I expect that Taiwan's actions toward China will still be closely connected to its electoral competition, particularly the presidential elections. As long as a large portion of voters embrace a Taiwanese identity, Taiwan's actions toward China are still likely to turn aggressive whenever elections approach. In other words, the need to meet voters' preferences in elections will still drive Taiwanese politicians' behaviors on cross-Strait issues. Thus, I also expect that, just as occurred before, Taiwan's conflictual actions toward China will most likely be electoral rhetoric rather than high-intensity confrontational behaviors. When the elections are over, politicians are likely to turn rational and cautious about the reality of international politics. Therefore, both China and the United States do not really have to take these provocative actions too seriously since these actions are just election rhetoric. Or, as the U.S. case in Chapter 6 shows, their overreaction is likely to cause Taiwan to stay on a conflictual course with China.



## Appendix A

### The WEIS Codes

Source: Pevehouse and Goldstein (1999c). Some additional codes (in italics) were created by the KEDS (Kansas Event Data System) project.

#### Yield (01)

- 011. Surrender, yield or order, submit to arrest, etc.
- 012. Yield position, retreat; evacuate.
- 013. Admit wrongdoing; retract statement.
- 014. Accommodate, Cease-fire.*
- 015. Cede Power.*

#### Comment (02)

- 021. Explicit decline to comment.
- 022. Comment on situation--pessimistic.
- 024. Comment on situation--optimistic.
- 025. Explain policy or future position.
- 026. Appoint or Elect.*
- 027. Alter Rules.*

#### Consult (03)

- 031. Meet with at neutral site, or send note.
- 032. Visit; go to.
- 033. Receive visit; host.
- 034. Vote, Elect.*

#### Approve (04)

- 041. Praise, hail, applaud, condole.
- 042. Endorse other's policy or position; give verbal support.
- 043. Rally.*

#### Promise (05)

- 051. Promise own policy support.
- 052. Promise material support.
- 053. Promise other future support action.
- 054. Assure; reassure.
- 055. Promise Rights.*

#### Grant (06)

- 061. Express regret; apologize.
- 062. Give state invitation.
- 063. Grant asylum.
- 064. Grant privilege, diplomatic recognition.
- 065. Suspend negative sanctions; truce.

066. Release and/or return persons or property.  
067. *Grant Position.*

Reward (07)

071. Extend economic aid (as gift and/or loan).  
072. Extend military assistance.  
073. Give other assistance.

Agree (08)

081. Make substantive agreement.  
082. Agree to future action or procedure; agree to meet, to negotiate.  
083. *Ally.*  
084. *Merge; Integrate.*

Request (09)

091. Ask for information.  
092. Ask for policy assistance.  
093. Ask for material assistance.  
094. Request action; call for.  
095. Entreat; plead; appeal to.  
096. *Request policy change*  
097. *Request rights*

Propose (10)

101. Offer proposal.  
102. Urge or suggest action or policy.

Reject (11)

111. Turn down proposal; reject protest demand, threat, etc.  
112. Refuse; oppose; refuse to allow.  
113. *Defy law*

Accuse (12)

121. Charge; criticize; blame; disapprove.  
122. Denounce; denigrate; abuse.  
123. *Investigate*

Protest (13)

131. Make complaint (not formal).  
132. Make formal complaint or protest.  
133. *Symbolic act*

Deny (14)

141. Deny an accusation.  
142. Deny an attributed policy, action role or position.

Demand (15)

150. Issue order or command; insist; demand compliance; etc.  
151. *Issue Command*

*152. Claim Rights*

Warn (16)

160. Give warning.

*161. Warn of policies*

*162. Warn of problem*

Threaten (17)

171. Threat without specific negative sanctions.

172. Threat with specific non-military negative sanctions.

173. Threat with force specified.

174. Ultimatum; threat with negative sanctions and time limit specified.

Demonstrate (18)

181. Non-military demonstration; to walk out on.

182. Armed force mobilization.

Reduce Relations (as negative sanctions) (19)

191. Cancel or postpone planned event.

192. Reduce routine international activity; recall officials; etc.

193. Reduce or halt aid.

194. Halt negotiations.

195. Break diplomatic relations.

*196. Strike*

*197. Censor*

Expel (20)

201. Order personnel out of country.

202. Expel organization or group.

*203. Ban Organization*

Seize (21)

211. Seize position or possessions.

212. Detain or arrest person(s).

*213. Hijack; Kidnap*

Force (22)

221. Non-injury obstructive act.

222. Non-military injury-destruction.

223. Military engagement.

## Appendix B

The Goldstein Net-Cooperation Scale (Goldstein 1992: 376-377.)

<i>Event Type</i>	<i>Weight</i>	<i>SD</i>
223 Military attack; clash; assault	-10.0	0.0
211 Seize position or possessions	-9.2	0.7
222 Nonmilitary destruction/injury	-8.7	0.5
221 Noninjury destructive action	-8.3	0.6
182 Armed force mobilization, exercise, display; military buildup	-7.6	1.2
195 Break diplomatic relations	-7.0	1.3
173 Threat with force specifies	-7.0	1.1
174 Ultimatum; threat with negative sanction and time limit	-6.9	1.4
172 Threat with specific negative nonmilitary sanction	-5.8	1.9
193 Reduce or cut off aid or assistance; act to punish/deprive	-5.6	1.4
181 Nonmilitary demonstration, walk out on	-5.2	2.1
201 Order person or personnel out of country	-5.0	1.7
202 Expel organization or group	-4.9	1.4
150 Issue order or command, insist, demand compliance	-4.9	1.7
171 Threat without specific negative sanction stated	-4.4	1.5
212 Detain or arrest person(s)	-4.4	2.3
192 Reduce routine international activity; recall officials	-4.1	1.2
112 Refuse; oppose; refuse to allow	-4.0	1.5
111 Turn down proposal; reject protest, demand, threat	-4.0	1.5
194 Halt negotiation	-3.8	0.9
122 Denounce; denigrate; abuse	-3.4	1.1
160 Give warning	-3.0	1.3
132 Issue formal complaint or protest	-2.4	0.9
121 Charge; criticize; blame; disapprove	-2.2	1.3
191 Cancel or postpone planned event	-2.2	1.5
131 Make complaint (not formal)	-1.9	0.6
063 Grant asylum	-1.1	2.5
142 Deny an attributed policy, action, role or position	-1.1	1.0
141 Deny an accusation	-0.9	1.3
023 Comment on situation	-0.2	0.5
102 Urge or suggest action or policy	-0.1	1.5
021 Explicit decline to comment	-0.1	0.6
094 Request action; call for	-0.1	1.0

TABLE Continued

<i>Event Type</i>	<i>Weight</i>	<i>SD</i>
025 Explain or State policy; state future position	0.0	0.0
091 Ask for information	0.1	0.4
011 Surrender, yield to order, submit to arrest	0.6	7.2
012 Yield position; retreat; evacuate	0.6	6.6
031 Meet with; send note	1.0	0.9
095 Entreat; plead; appeal to; beg	1.2	1.8
101 Offer proposal	1.5	1.9
061 Express regret; apologize	1.8	1.5
032 Visit; go to	1.9	2.4
066 Release and/or return persons or property	1.9	2.7
013 Admit wrongdoing; apologize, retract statement	2.0	2.2
062 Give state invitation	2.5	2.7
054 Assure; reassure	2.8	2.2
033 Receive visit; host	2.8	3.0
065 Suspend sanctions; end punishment; call truce	2.9	3.6
082 Agree to future action or procedure, to meet, or to negotiate	3.0	2.5
092 Ask for policy assistant	3.4	1.1
093 Ask for material assistance	3.4	2.4
041 Praise, hail, applaud, extend condolences	3.4	2.1
042 Endorse other's policy or position; give verbal support	3.6	1.8
053 Promise other future support	4.5	1.6
051 Promise own policy support	4.5	1.7
052 Promise material support	5.2	1.5
064 Grant privilege; diplomatic recognition; de facto relations	5.4	1.4
073 Give other assistance	6.5	1.9
081 Make substantive agreement	6.5	1.4
071 Extend economic aid; give, buy, sell, loan, borrow	7.4	1.0
072 Extend military assistance	8.3	0.9

Note: Weight is mean of weights assigned by eight panelists; *SD* is standard deviation across panelists.

## **Appendix C**

**Table C-1. Results of the VAR Time-Series Analysis (1/1/1990- 6/30/1995)**

Dep. Var. Ind. Var.	China to Taiwan	Taiwan to China	China to US	US to China	Taiwan to US	US to Taiwan	TAIEX	China Stocks
China to Taiwan				*	**			
Taiwan to China	†				†	*		
China to US			†			**		
US to China	***	†			**	**		
Taiwan to US					**	**		
US to Taiwan	*	*			*	**		
TAIEX							***	***
China Stocks							***	***
Presidential Election	-0.000114† (0.000060)	0.000073 (0.000068)	-0.000458*** (0.000105)	-0.000362*** (0.000091)	-0.000069 (0.000054)	-0.000177*** (0.000050)	-0.006814 (0.004913)	-0.000052 (0.000062)
Parliamentary Election	0.000076 (0.000105)	0.000461*** (0.000121)	0.000143 (0.000187)	0.000073 (0.000162)	-0.000062 (0.000096)	-0.000054 (0.000089)	0.001692 (0.008685)	0.000005 (0.000110)
Constant	0.199763† (0.108881)	-0.247395* (0.124311)	0.821783*** (0.193020)	0.737256*** (0.166536)	0.187948† (0.098611)	0.395394*** (0.091646)	5.622706 (8.950073)	0.043973 (0.113346)
Adjusted R <sup>2</sup>	0.086409	0.078883	0.077345	0.076228	0.095819	0.094916	0.081885	0.089104
Standard Error of Estimate	1.244918	1.421351	2.206954	1.904142	1.127495	1.047862	102.333322	1.295975
Durbin-Watson Statistics	2.002318	2.002360	1.992642	2.000609	2.001925	1.992952	2.001383	2.004165
Number of Observations	1992	1992	1992	1992	1992	1992	1992	1992

Note: 1. Values in parentheses are standard errors. 2. \*\*\* p<.001; \*\* p<.01; \* p<.05; † p< .10. The joint-significance level for the endogenous variables is based on the block *F* test (Freeman, Williams, and Lin 1989: 845-846; Pevehouse and Goldstein 1999a: 8). 3. Fifteen (15) lags are used for each endogenous variable based on Sims' modified likelihood ratio tests. See Table C-3.

**Table C-2.** Results of the VAR Time-Series Analysis (7/1/1995- 12/31/2004)

Dep. Var. Ind. Var.	China to Taiwan	Taiwan to China	China to US	US to China	Taiwan to US	US to Taiwan	TAIEX	China Stocks
China to Taiwan	***	***	†	*	***	***		
Taiwan to China	**	†						
China to US			***	***		*		
US to China			***	***		***		
Taiwan to US					***			
US to Taiwan	***	***		†		***	†	†
TAIEX		*	†	**			*	*
China Stocks				**				**
Presidential Election	0.000224* (0.000090)	0.000145* (0.000059)	0.000148 (0.000125)	-0.000030 (0.000125)	0.000000 (0.000045)	0.000078 (0.000052)	-0.003738 (0.003447)	-0.000110 (0.000098)
Parliamentary Election	-0.000083 (0.000127)	0.000121 (0.000082)	-0.000097 (0.000175)	0.000154 (0.000176)	0.000126* (0.000064)	-0.000052 (0.000073)	0.006645 (0.004843)	0.000177 (0.000138)
Constant	-0.318273** (0.115436)	-0.143319† (0.075047)	0.179027 (0.159784)	0.342399* (0.160596)	0.078058 (0.057992)	0.078054 (0.066639)	-1.331892 (4.419697)	-0.022079 (0.126048)
Adjusted R <sup>2</sup>	0.210657	0.109036	0.114268	0.116877	0.088797	0.133730	0.079557	0.076046
Standard Error of Estimate	2.243832	1.458762	3.105861	3.121655	1.127250	1.295329	85.909583	2.450108
Durbin-Watson Statistics	1.996477	2.003438	2.003191	2.000389	2.000013	1.998369	2.001290	1.999410
Number of Observations	3442	3442	3442	3442	3442	3442	3442	3442

Note: 1. Values in parentheses are standard errors. 2. \*\*\* p<.001; \*\* p<.01; \* p<.05; † p<.10. The joint-significance level for the endogenous variables is based on the block *F* test (Freeman, Williams, and Lin 1989: 845-846; Pevehouse and Goldstein 1999a: 8). 3. Thirty (30) lags are used for each endogenous variable based on Sims' modified likelihood ratio tests. See Table C-3.



**Table C-3.** Results of the Ratio Tests

	<b>1/1/1990- 6/30/1995</b>	<b>7/1/1995- 12/31/2004</b>
<b>Lag Test</b>	<b>Chi-square (df)</b>	<b>Chi-square (df)</b>
10 vs. 5	369.315808 (320)*	652.374320 (320)***
15 vs. 10	388.030413 (320)**	352.977004 (320)†
20 vs. 15	285.046042 (320)	344.009247 (320)
25 vs. 20	305.167038 (320)	365.680646 (320)*
30 vs. 25	327.959261 (320)	409.573004 (320)***
35 vs. 30	301.278838 (320)	300.868474 (320)
40 vs. 35	348.400829 (320)	327.138343 (320)
30 vs. 15	899.042207 (960)	1107.915186 (960)***
30 vs. 10	1252.091544 (1280)	1442.264588 (1280)***

Note: 1. The tests for lag length are Sims' (1980: 17- 18) modified likelihood ratio tests. In each test, the shorter lag (restricted) model is the null hypothesis and the longer lag (unrestricted) model is the alternative hypothesis. 2. The tests were conducted by RATS software, version 5.0. For 1/1/1990- 6/30/1995, the tests clearly indicate that the 15-lag model should be used. For 7/1/1995- 12/31/2004, models with 10, 15, and 30 lags cannot be rejected at the .05 level when tested, respectively, against 15, 20, and 35 lags. However, both 10 lags and 15 lags can be rejected when tested against 30 lags. 3. \*\*\*  $p < .001$ ; \*\*  $p < .01$ ; \*  $p < .05$ ; †  $p < .10$ .

## Bibliography

- Axelrod, Robert, and Robert O. Keohane. 1985. "Achieving Cooperation under Anarchy: Strategies and Institutions." *World Politics* 38: 226-54.
- Baldwin, David A., ed. 1993. *Neorealism and Neoliberalism: The Contemporary Debate*. New York: Columbia University Press.
- Barbieri, Katherine. 1996. "Economic Interdependence: A Path to Peace or a Source of Interstate Conflict?" *Journal of Peace Research* 33 (1): 29- 49.
- Bau, Tzong-ho, and Yu-shan Wu, eds. 1999. *Contending Theories in the Study of Cross-Strait Relations*. Taipei: Wu-nan. (In Chinese)
- Benson, Brett V. and Emerson M. S. Niou. 2001. "Comprehending Strategic Ambiguity: U.S. Security Commitment to Taiwan." Working paper.
- Bercovitch, Jacob, and Jeff Langley. 1993. "The Nature of Dispute and the Effectiveness of International Mediation." *Journal of Conflict Resolution* 37: 670-691.
- Blainey, Geoffrey. 1988. *The Causes of War*. New York: The Free Press. (Third Edition)
- Bolt, Paul J. 2001. "Economic Ties across the Taiwan Strait: Buying Time for Compromise." *Issues & Studies* 37 (2): 80- 105.
- Bush, Richard C. 2004. *At Cross Purposes: U.S.-Taiwan Relations since 1942*. Armonk, N.Y.: M.E. Sharpe.
- Bush, Richard C. 2005. *Untying the Knot: Making Peace in the Taiwan Strait*. Washington, D.C.: Brookings Institution Press.
- Cady, Frederic, and Eugene Kuan. "Reform or Die? Reform and Adaptability in Former Hegemonic Parties in Mexico and Taiwan." Paper prepared for presentation at the annual meeting of the Midwest Political Science Association, April 2004, Chicago.
- Chang, Hui-ying. 2000. *Lee Teng-hui: Twelve Years' Rule, 1988-2000*. Taipei: Commonwealth. (in Chinese)
- Chang, Tieh-chih. 1999. *Capitalism's Development and Democratization: Taiwan's New State-Business Coalition and the KMT Regime's Continuation*. MA Thesis, unpublished, Department of Political Science, National Taiwan University.
- Chang, Tieh-chih. 2003. "Two Models of Money Politics." *China Times*, June 13, 2003, p. A 15.

- Chen, Ming-tong. 1995. *Factional Politics and Political Changes in Taiwan*. Taipei: Yuedan. (in Chinese)
- Christensen, Thomas J. 1996. *Useful Adversaries: Grand Strategy, Domestic Mobilization, and Sino-American Conflict, 1947-1958*. Princeton: Princeton University Press.
- Chu, Xian-long. Date unknown. "The Five Crises between Taiwan and Mainland China." See <http://bmt218.uhome.net/info2.htm> . (In Chinese)
- Chu, Yun-han. 1992. *Crafting Democracy in Taiwan*. Taipei: Institute for National Policy Research.
- Chu, Yun-han. 1994a. "Party Competition, Conflict Structure and Democratic Consolidation: An Analysis on the Political Impacts of the 1992 Legislators Election." Paper presented at the Conference on Democratization, Party Politics and Elections, National Taiwan University, Taipei, July 8. (in Chinese)
- Chu, Yun-han. 1994b. "China Circle and the Political Economy of Taiwan's Mainland Policy." Paper presented at the Conference on The China Circle: Regional Consequences of Evolving Relations among the PRC, Taiwan, and Hong Kong-Macao, Hong Kong, December 8- 10, 1994.
- Ciment, James. 1997. *Algeria: The Fundamentalist Challenge*. New York : Facts on File.
- Claude, Inis L. Jr. 1962. *Power and International Relations*. New York: Random House.
- David A. Pierce. 1977. "Relationships--and the Lack Thereof--between Economic Time Series, with Special Reference to Money and Interest Rates." *Journal of the American Statistical Association* 72 (March): 11- 26.
- Deng, Ping. "Taiwan's Restriction of Investment in China in the 1990s: A Relative Gains Approach." *Asian Survey* 40 (6): 958- 980.
- Dent, Christopher M. 2001. "Being Pulled into China's Orbit? Navigating Taiwan's Foreign Economic Policy." *Issues & Studies* 37 (5): 1- 34.
- Dittmer, Lowell. 1987. "The Strategic Triangle: A Critical Review." In *The Strategic Triangle: China, the United States and the Soviet Union*, ed. Ilpyong Kim. New York: Paragon House.
- Dixon, William. 1996. "Third-Party Techniques for Preventing Conflict Escalation and Promoting Peaceful Settlement." *International Organization* 50: 653-681.
- Downs, Anthony. 1957. *An Economic Theory of Democracy*. New York : Harper.

- Doyle, Michael W. 1986. "Liberalism and World Politics." *American Political Science Review* 80 (4): 1151-69.
- Enterline, Andrew J. 1998. "Regime Changes and Interstate Conflict, 1816-1992." *Political Research Quarterly* 51(2): 385- 409.
- Evans, Peter, Harold Jacobson, and Robert Putnam, eds. 1993. *Double-Edged Diplomacy*. Berkeley: University of California Press.
- Executive Yuan, relevant ministries. 2003. *An Impact Assessment of Cross-Strait Direct Link*. Taipei. Unpublished.
- Fearon, James D. 1993. "Ethnic War as a Commitment Problem." Manuscript.
- Fearon, James D. 1994. "Domestic Political Audiences and the Escalation of International Disputes." *American Political Science Review* 88 (3): 577-92.
- Fearon, James D. 1995. "Rationalist Explanations for War." *International Organization* 49 (3): 379-414.
- Freeman, John R. 1983. "Granger Causality and the Times Series Analysis of Political Relationships." *American Journal of Political Science* 27 (2): 327-358.
- Freeman, John R., John T. Williams, and Tse-min Lin. 1989. "Vector Autoregression and the Study of Politics." *American Journal of Political Science* 33 (November): 842-77.
- Frieden, Jeffrey A. 1991. "Invested Interests: The Politics of National Economic Policies in a World of Global Finance." *International Organization* 45 (4): 425-451.
- Frieden, Jeffrey A., and Ronald Rogowski. 1996. "The Impact of the International Economy on National Policies: An Analytical Overview." In *Internationalization and Domestic Politics*, eds. Robert Keohane and Helen Milner. New York: Cambridge University Press.
- Gartzke, Erik, and Quan Li. 2003. "Globalization and Peace: How Economic Integration Can Reduce the Incidence of International Conflict." In *Globalization and Armed Conflict*. Nils Petter Gleditsch, Gerald Schneider, and Katherine Barbieri, eds. Boulder, CO: Rowman and Littlefield.
- Gartzke, Erik, Quan Li, and Charles Boehmer. 2001. "Investing in the Peace: Economic Interdependence and International Conflict." *International Organization* 55(2): 391-438.
- Gaubatz, Kurt Taylor. 1991. "Election Cycles and War." *Journal of Conflict Resolution* 35 (2): 212-244.

- Gaubatz, Kurt Taylor. 1999. *Elections and War: The Electoral Incentive in the Democratic Politics of War and Peace*. Stanford, Calif.: Stanford University Press.
- Gilpin, Robert. 1981. *War and Change in World Politics*. New Jersey: Princeton University Press.
- Goldstein, Joshua S. 1992. "A Conflict-Cooperation Scale for WEIS Events Data." *The Journal of Conflict Resolution* 36 (2): 369-385.
- Goldstein, Joshua S., and John R. Freeman. 1990. *Three-Way Street: Strategic Reciprocity in World Politics*. Chicago: University of Chicago Press.
- Goldstein, Joshua S., and Jon C. Pevehouse. 1997. "Reciprocity, Bullying, and International Cooperation: Time-series Analysis of the Bosnia Conflict." *American Political Science Review* 91 (3): 515- 29.
- Goldstein, Joshua S., Jon C. Pevehouse, Deborah J. Gerner, and Shibley Telhami. 2001. "Reciprocity, Triangularity, and Cooperation in the Middle East, 1979-97." *Journal of Conflict Resolution* 45 (5): 594- 620.
- Gourevitch, Peter Alexis. 1977. "International Trade, Domestic Coalitions, and Liberty: Comparative Responses to the Crisis of 1873-1896." *Journal of Interdisciplinary History*, 8 (2): 281- 313.
- Gourevitch, Peter Alexis. 1986. *Politics in Hard Times: Comparative Responses to International Economic Crises*. Cornell University Press.
- Government Information Office. 2001. *The Republic of China Yearbook*. Taipei.
- Gowa, Joanne, and Edward D. Mansfield. 1993. "Power Politics and International Trade." *American Political Science Review* 87 (2): 408- 420.
- Grieco, Joseph M. 1988. "Anarchy and the Limit of Cooperation: A Realist Critique of the Newest Liberal Institutionalism." *International Organization* 42 (August): 485-507.
- Gujarati, Damodar N. 2002. *Basic Econometrics*. McGraw-Hill College.
- Haas, Peter M. 1992. "Introduction: Epistemic Communities and International Policy Coordination." *International Organization* 46 (1): 1-36.
- Hickey, Dennis Van Vranken. 2004. "Continuity and Change: the Administration of George W. Bush and US Policy toward Taiwan." *Journal of Contemporary China* 13 (40): 461- 478.

- Higley, John, and Michael Burton. 2006. *Elite Foundations of Liberal Democracy*. Rowman and Littlefield Publisher Inc.
- Higley, John, Tong-yi Huang, and Tse-min Lin. 1998. "Elite Settlements in Taiwan." *Journal of Democracy* 9 (2): 148-163.
- Hirshleifer, Jack, and Juan C. M. Coll. 1988. "What Strategies Can Support the Evolutionary Emergence of Cooperation?" *Journal of Conflict Resolution* 32 (2): 367-398.
- Ho, Szu-yin and Tse-Kang Leng. 2004. "Accounting for Taiwan's Economic Policies toward China." *Journal of Contemporary China* 13(41): 733-746.
- Hsieh, John Fuh-sheng. 1995. "Chiefs, Staffers, Indians, and Others: How Was Taiwan's Mainland China Policy Made?" In Tun-jen Cheng, Chi Huang, and Samuel S.G. Wu, eds., *Inherited Rivalry: Conflict Across the Taiwan Straits*. Boulder, Co.: Lynne Rienner.
- Huth, Paul K. 1988. *Extended Deterrence and the Prevention of War*. New Haven: Yale University Press.
- Huth, Paul, and Bruce Russett. 1993. "General Deterrence between Enduring Rivals: Testing Three Competing Models." *American Political Science Review* 87 (1): 61-73.
- Kau, Michael Y.M. 1999. "Clinton's 'Three No's' Policy: A Critical Assessment." Paper presented at the Conference on War and Peace in the Taiwan Strait, Duke University, February 26- 27, 1999.
- Keng, Shu and Lu-huei Chen. 2003. "Taiwan's Regional Blocs." *Issues and Studies* 42 (6): 1-28. (in Chinese)
- Kennedy, Scott, ed. 2003. *China Cross Talk: The American Debate over China Policy since Normalization*. Rowman & Littlefield Publishers, Inc.
- Keohane, Robert O. 1984. *After Hegemony*. N.J.: Princeton University Press.
- Keohane, Robert O. 1986. "Reciprocity in International Relations." *International Organization* 40 (winter): 1-27.
- Keohane, Robert O. 1993. "Institutional Theory and the Realist Challenge after the Cold War." In *Neorealism and Neoliberalism: The Contemporary Debate*, ed. David A. Baldwin. New York: Columbia University Press.
- Keohane, Robert O., and Lisa L. Martin. 1995. "The Promise of Institutional Theory." *International Security* 20 (summer): 39-51.

- Kindleberger, Charles Poor. 1973. *The World in Depression, 1929-1939*. Berkeley: University of California Press.
- King, Gary, and Will Lowe. 2003. "An Automated Information Extraction Tool for International Conflict Data with Performance as Good as Human Coders: A Rare Events Evaluation Design." *International Organization*, 57, 3 (July): 617-642.
- Kleiboer, Marieke. 1996. "Understanding Success and Failure in International Mediation." *Journal of Conflict Resolution* 40: 360-389.
- KMT. 1992. *Building a New Era of the Chinese Nation: A Collection of President Lee's Talks on the Country's Unification*. Taipei: China Cultural Service.
- Krasner, Stephen D. 1976. "State Power and the Structure of International Trade." *World Politics* 28 (3): 317-43.
- Kuan, Eugene Hung-chang. 1996. *Taiwan's Transition from Authoritarianism and Its Foreign Policy Making: On the Formulation of the "Participating in the U.N. Policy."* MA Thesis, unpublished, Department of Political Science, National Taiwan University.
- Kuo, Su-feng. 2000. *Taiwan's Democratic Transition and Its Foreign Policy: The Impact of Taiwan's Elections on Its China Policy*. Ph.D. Dissertation, unpublished, Department of Political Science, University of Michigan.
- Lake, David A. 1992. "Powerful Pacifists: Democratic States and War." *American Political Science Review* 86 (1): 24-37.
- Lake, David A. 1993. "Leadership, Hegemony, and the International Economy: Naked Emperor or Tattered Monarch with Potential?" *International Studies Quarterly* 37 (4): 459-489.
- Layne, Christopher. 1994. "Kant or Cant: The Myth of the Democratic Peace." *International Security* 19 (2): 5-45.
- Lebow, Richard Ned. 1981. *Between Peace and War: The Nature of International Crisis*. Baltimore: The Johns Hopkins University Press.
- Lebow, Richard Ned. 1995. "The Search for Accommodation: Gorbachev in Comparative Perspective." In *International Relations Theory and the End of the Cold War*, eds. Richard Ned Lebow and Thomas Risse-Kappen. New York: Columbia University Press.
- Leng, Tse-Kang. 1996. "The State and Taiwan's Mainland Economic Policy." *Asian Affairs* 23 (1): 20-33.

- Leng, Tse-Kang. 1998. "Dynamics of Taiwan-Mainland China Economic Relations: the Role of Private Firms." *Asian Survey* 38 (5): 494-509.
- Leng, Tse-Kang. 2005. "State and Business in the Era of Globalization: the Case of Cross-Strait Linkages in the Computer Industry." *The China Journal* 53: 63-79.
- Levi, Margaret. 1997. "A Model, A Method, and a Map: Rational Choice in Comparative and Historical Analysis." In *Comparative Politics: Rationality, Culture, and Structure*, eds. Mark I. Lichbach and Alan S. Zuckerman, pp. 19- 41. New York: Cambridge University Press.
- Levy, Jack S. 1998. "The Causes of War and the Conditions of Peace." *Annual Review of Political Science* 1: 139- 165.
- Lilley, James R. 2004. *James Lilley's Memoir*. Taipei: China Times Press. (in Chinese; based on James R. Lilley, *China Hands: Nine Decades of Adventure, Espionage, and Diplomacy in Asia*. New York: Public Affairs, 2004.)
- Lin, Chia-lung. 1998. *Paths to Democracy: Taiwan in Comparative Perspectives*. Ph.D. Dissertation, unpublished, Department of Political Science, Yale University.
- Lin, Jih-wen. 2000. "Two-Level Games between Rival Regimes: Domestic Politics and the Remaking of Cross-Strait Relations." *Issues and Studies* 36 (6): 1-26.
- Lin, Jih-wen. 2004. "Conflict across the Taiwan Strait and the Washington-Beijing-Taipei Strategic Triangle." Paper presented at the "Taiwan at the Edge of Empires" conference, National Tsing-hua University, Taipei, December 18, 2004.
- Lin, Tse-min, and Brian Roberts. 2007. "Markets and Politics: The 2000 Taiwanese Presidential Election." In William A. Barnett and Melvin J. Hinich, eds., *Topics in Analytical Political Economy*, p.p. 139-162. Amsterdam, the Netherlands: Elsevier.
- Lin, Tse-min, and Yun-han Chu. 2004. "The Structure of Taiwan's Political Cleavages toward the 2004 Presidential Election: A Spatial Analysis." Paper presented at the 2004 Taiwan Election and Democratization Study Conference, Institute of Political Science at Academia Sinica, Taipei, September 25-26.
- Lin, Tse-min, Yun-han Chu and Melvin Hinich. 1996. "Conflict Displacement and Regime Transition in Taiwan: A Spatial Analysis." *World Politics*, 48 (4): 453-481.
- Lin, Tse-min, Yun-han Chu, Tong-yi Huang, and Baohui Zhang. 2003. "Elections and Elite Convergence: The Consolidation of Democracy in Taiwan." Manuscript.



- Lin, Tse-min. 2005. "Information and Ideological Structure in Spatial Voting." Paper prepared for the 2005 International Conference on Taiwan's Election and Democratization, May 21-22, 2005, Taipei.
- Linz, Juan J., and Alfred Stepan. 1996. *Problems of Democratic Transition and Consolidation: Southern Europe, South America, and Post-Communist Europe*. Baltimore: Johns Hopkins University Press.
- Liou, Yi-chou. 2003. "The Trend in the Development of People's Taiwanese/Chinese Identity." Paper presented at the 2003 annual meeting of Taiwanese Political Science Association, Taipei, December 13- 14, 2003.
- Mainland Affairs Council. 1997. *Crossing the Gap in the History: Looking Backward and Forward after Ten Years' Cross-Strait Exchanges*. Taipei.
- Malcolm, Neil, and Alex Pravda. 1996. "Democratization and Russian Foreign Policy." *International Affairs* 72 (3): 537-552.
- Mann, James. 1999. *About Face: A History of America's Curious Relationship with China, from Nixon to Clinton*. New York: Alfred Knopf.
- Mansfield, Edward D., and Brian M. Pollins. 2001. "The Study of Interdependence and Conflict: Recent Advances, Open Questions, and Directions for Future Research." *Journal of Conflict Resolution*, 45 (6): 834- 859.
- Mansfield, Edward D., and Brian M. Pollins. 2003. "Interdependence and Conflict: An Introduction." In *Economic Interdependence and International Conflict: New Perspectives on an Enduring Debate*, ed. Edward D. Mansfield and Brian M. Pollins. Ann Arbor: University of Michigan Press.
- Mansfield, Edward D., and Jack Snyder. 1995. "Democratization and the Danger of War." *International Security* 20 (1): 5- 38.
- Mansfield, Edward D., and Jack Snyder. 2005. *Electing to Fight: Why Emerging Democracies Go to War*. Cambridge, Mass.: MIT Press.
- McClelland, Charles A. 1978. *World Event Interaction Survey (WEIS) Project, 1966-1978* [computer file] (Study # 5211). Conducted by Charles McClelland, University of Southern California. 3<sup>rd</sup> ICPSR ed. Ann Arbor, MI: Inter-university Consortium for Political and Social Research [producer and distributor], 1978.
- McFaul, Michael. 1997-1998. "A Precarious Peace: Domestic Politics in the Making of Russian Foreign Policy." *International Security* 22 (3): 5- 35.
- Mearsheimer, John J. 1994/1995. "The False Promise of International Institutions." *International Security* 19 (winter): 5-49.

- Milner, Helen V. 1987. "Resisting the Protectionist Temptation: Industry and the Making of Trade Policy in France and the United States During the 1970s." *International Organization* 41(4): 639-665.
- Milner, Helen V. 1988. "Trading Places: Industries for Free Trade." *World Politics* 40 (3): 350-376.
- Milner, Helen V. 1997. *Interest, Institutions, and Information: Domestic Politics and International Relations*. New Jersey: Princeton University Press.
- Nincic, Miroslav. 1990. "U. S. Soviet Policy and the Electoral Connection." *World Politics* 42 (3): 370-396.
- Oneal, John R., and Bruce M. Russett . 1997. "The Classical Liberals Were Right: Democracy, Interdependence, and Conflict, 1950-1985." *International Studies Quarterly* 41 (2): 267-293.
- Oneal, John R., and Bruce M. Russett . 1999. "The Kantian Peace: The Pacific Benefits of Democracy, Interdependence, and International Organizations, 1885-1992." *World Politics* 52 (1): 1-37.
- Papayouanou, Paul A. 1996. "Interdependence, Institutions, and the Balance of Power: Britain, Germany, and World War I." *International Security* 20 (4): 42-76.
- Papayouanou, Paul A. 1997. "Economic Interdependence and the Balance of Power." *International Studies Quarterly* 41 (1): 113-140.
- Pevehouse, Jon C., and Joshua S. Goldstein. 1999a. "From Conflict to Cooperation: Comparing Patterns of Reciprocity in International Conflict." Paper prepared for delivery at the 1999 Annual Meeting of the International Studies Association, February 16-20, 1999, Washington D.C.
- Pevehouse, Jon C., and Joshua S. Goldstein. 1999b. "Serbian Compliance or Defiance in Kosovo? Statistical Analysis and Real-Time Predictions." *Journal of Conflict Resolution* 43 (4): 538-46.
- Pevehouse, Jon C., and Joshua S. Goldstein. 1999c. *International Cooperation and Regional Conflicts in the Post-Cold War World: Events Data for 12 Regional Conflicts, 1987-1999* [computer file] (Study #2761). Distributed by Inter-university Consortium for Political and Social Research, Ann Arbor, MI.
- Pierce, David A. 1977. "Relationships--and the Lack Thereof--Between Economic Time Series, with Special Reference to Money and Interest Rates." *Journal of the American Statistical Association* 72 (357) (March): 11-26.

- Polachek, Solomon W. 1980. "Conflict and Trade." *Journal of Conflict Resolution* 24 (1): 55-78.
- Putnam, Robert. 1988. "Diplomacy and Domestic Politics: The Logic of Two-Level Games." *International Organization* 42 (summer): 427-460.
- Regan, Patrick M. 1996. "Conditions of Successful Third-Party Intervention in Intrastate Conflicts." *Journal of Conflict Resolution* 40 (2): 336-359.
- Risse-Kappen, Thomas. 1994. "Ideas Do Not Float Freely: Transnational Coalitions, Domestic Structures, and the End of the Cold War." *International Organization* 48 (spring): 185-214.
- Rogowski, Ronald. 1987. "Political Cleavages and Changing Exposure to Trade." *American Political Science Review* 81(4): 1121-1137.
- Ross, Robert S. 1999. "The Geography of the Peace: East Asia in the Twenty-first Century." *International Security* 23 (4): 81-118.
- Ross, Robert S., ed. 1998. *After the Cold War: Domestic Factors and U.S.-China Relations* New York: M. E. Sharpe Inc.
- Shafer, Michael D. 1994. *Winners and Losers: How Sectors Shape the Developmental Prospects of States*. Ithaca, N.Y.: Cornell University Press.
- Sheng, Shing-yuan. 2002. "The Unification-Independence Issue and Taiwanese Voters' Voting Behavior: The Analysis of the 1990s." *Electoral Studies* 9 (1): 41-80. (in Chinese)
- Shiau, Chyuan-jenq. 1989. *The New Mercantilism in Taiwan*. Taipei: Institute for National Policy Research. (in Chinese)
- Sims, Christopher A. 1980. "Macroeconomics and Reality." *Econometrica* 48 (1): 1- 48.
- Skidmore, David. 1993. "The Politics of National Security Policy: Interest Groups, Coalitions, and the SALT II Debate." In *The Limits of State Autonomy: Societal Groups and Foreign Policy Formulation*, ed. David Skidmore and Valerie M. Hudson. Boulder, Colo.: Westview.
- Smith, Alastair. 1996. "Diversionary Foreign Policy in Democratic Systems." *International Studies Quarterly* 40 (1): 133-153.
- Smith, Alastair. 1998a. "Fighting Battles, Winning Wars." *Journal of Conflict Resolution* 42 (3): 301-320.

- Smith, Alastair. 1998b. "International Crises and Domestic Politics." *American Political Science Review* 92 (3): 623- 638.
- Snyder, Jack L. 1993. *Myths of Empire: Domestic Politics and International Ambition*. Ithaca: Cornell University Press.
- Su, Chi, and An-kuo Cheng. 2002. "*One China, with Respective Interpretations*"—*A Historical Account of the Consensus of 1992*. Taipei: National Policy Foundation.
- Su, Chi. 2003. *Brinkmanship: From Two-States-Theory to One-country-on-Each-side*. Taipei: Commonwealth. (in Chinese)
- Sutter, Robert. 1998. "Domestic Politics and the U.S.-China-Taiwan Triangle: The 1995-96 Taiwan Strait Conflict and Its Aftermath." In *After the Cold War: Domestic Factors and U.S.-China Relations*, ed. Robert S. Ross. New York: M. E. Sharpe Inc.
- Sutter, Robert. 2002. "The Bush Administration and U.S. China Policy Debate: Reasons for Optimism." *Issues and Studies* 38 (2): 1-30.
- Thompson, William R., and Richard Tucker. 1997. "A Tale of Two Democratic Peace Critiques." *Journal of Conflict Resolution* 41(3): 428- 454.
- Tkacik, Jr., John J. 2002. "The U.S.-Taiwan Alliance: Who's in Charge?" *Issues and Studies* 38 (2): 200- 12.
- Tkacik, Jr., John J. 2004. "Taiwan's Missile Referendum." WebMemo #401, The Heritage Foundation (<http://www.heritage.org/Research/AsiaandthePacific/wm401.cfm> ).
- Trubowitz, Peter, Emily O. Goldman, and Edward Rhodes, eds. 1998. *The Politics of Strategic Adjustment: Ideas, Institutions, and Interests*. New York: Columbia University Press.
- Trubowitz, Peter. 1992. "Sectionalism and American Foreign Policy: The Political Geography of Consensus and Conflict." *International Studies Quarterly* 36 (2): 173- 190.
- Trubowitz, Peter. 1998. *Defining the National Interest: Conflict and Change in American Foreign Policy*. University of Chicago Press.
- Trubowitz, Peter. 2001. "Going International: Domestic Incentive and Strategic Ambition." Paper prepared for delivery at the Annual Meetings of the American Political Science Association, San Francisco, August 30- September 2, 2001.

- Tung, Chen-yuan. 2002. "The Impact of Cross-Strait Economic Exchanges on Cross-Strait Relations." Manuscript. (in Chinese)
- Tung, Chen-yuan. 2003. "Cross-Strait Economic Relations: China's Leverage and Taiwan's Vulnerability." *Issues & Studies*, 39 (3): 137- 175.
- Wachman, Alan M. 2001. "Challenges and Opportunities in the Taiwan Strait: Defining America's Role." The website of National Committee on United States-China Relations ( [http://www.ncuscr.org/Publications/China\\_Policy\\_series.htm](http://www.ncuscr.org/Publications/China_Policy_series.htm) ).
- Wagner, R. Harrison. 1999. "Bargaining and Conflict Resolution." Paper prepared for delivery at the 1999 International Studies Association Annual Convention, Washington D.C., February 16- 20, 1999.
- Wall, James A., and Ann Lynn. 1993. "Mediation: A Current Review." *Journal of Conflict Resolution* 37: 160- 194.
- Walt, Stephen M. 1985. "Alliance Formation and the Balance of World Power." *International Security* 9 (4): 3- 43.
- Walt, Stephen M. 1987. *The Origins of Alliances*. Ithaca, NY: Cornell University Press.
- Walter, Barbara F. 2002. *Committing to Peace: The Successful Settlement of Civil Wars*. NJ: Princeton University Press.
- Waltz, Kenneth N. 1979. *Theory of International Politics*. Reading, Mass.: Addison-Wesley.
- Wang, Ming-yi. 1993. *The Uncertain Strait: When the R.O.C. Meets the P.R.C.* Taipei: China Times Culture. (in Chinese)
- Wang, Ming-yi. 2005. *Dialogues and Confrontations: The Political Contests between Taiwan and China*. Taipei: Commonwealth. (in Chinese)
- Ward, Michael D., and Kristian S. Gleditsch. 1998. "Democratizing for Peace." *American Political Science Review* 92 (1): 51- 61.
- Wei, Min. 1991. *The R.O.C.'s Bilateral Diplomacy*. Taipei: National Policy Research Center.
- Wolf, Reinhard, Erich Weede, Andrew J. Enterline, Edward D. Mansfield, and Jack Snyder. 1996. "Democratization and the Danger of War." *International Security* 20 (4): 176- 207.
- Woodward, Susan L. 1995. *Balkan Tragedy: Chaos and Dissolution after the Cold War*. Washington, D.C.: Brookings Institution Press.

- Wu, Yu-shan. 1998. "Taiwan's Mainland Policy: Structure and Rationality." Paper presented at the Conference on Cross-Strait Studies, National Taiwan University, Taipei, November 7. (in Chinese)
- Wu, Yu-shan. 1999. "Taiwanese Elections and Cross-Strait Relations: Mainland Policy in Flux." *Asian Survey* 39 (4): 565-587.
- Wu, Yu-shan. 2000a. "The Impact of Taiwan's Presidential Election on the Cross-Strait Relations: The Vote-Maximizing Model and the Strategic Triangle Theory." *Yuan Jing Quarterly* 1 (3): 1-33. (In Chinese.)
- Wu, Yu-shan. 2000b. Theorizing on Relations across the Taiwan Strait: Nine Contending Approaches." *Journal of Contemporary China* 9 (25): 407-28.
- Wu, Yu-shan. 2004a. "From Romantic Triangle to Marriage? Washington-Beijing-Taipei Relations in Historical Comparison." Paper prepared for delivery at the 33<sup>rd</sup> Sino-American Conference on Contemporary China, May 2004, Institute of International Relations, Taipei.
- Wu, Yu-shan. 2004b. "Taiwan's Domestic Politics and Cross-Strait Relations." Paper presented at the USC's 40th Anniversary Conference: The State of Contemporary China, Universities Service Centre, Hong Kong, January 6-7, 2004.
- Wu, Yu-shan. 2006. "Domestic Political Competition and Triangular Interaction Among Washington , Beijing , and Taipei: The U.S. China Policy." *Issues and Studies* 42 (1): 1- 46.
- Zakaria, Fareed. 1998. *From Wealth to Power: The Unusual Origins of America's World Role*. Princeton: Princeton University Press.
- Zou, Jing-wen. 2001. *The Truth-Telling Records of Lee Teng-hui's Rule*. Taipei: INK. (in Chinese)

## **Vita**

Hung-chang Kuan, the son of Tsui-ju Wu and Shan-yan Kuan, was born in Kaohsiung, Taiwan on May 21, 1970. He graduated from Cheng-kung Senior High School, Taipei, Taiwan in 1988. Hung-chang received his B.A. in Political Science in 1992 and his M.A. in Political Science in 1996, both from National Taiwan University. From 1996 to 1998 Hung-chang served as a Second Lieutenant in Taiwan's Army. He was a research assistant in the Department of Political Science at National Taiwan University from September 1998 to July 1999. Hung-chang entered the graduate program of the Government Department, the University of Texas at Austin in August 1999. He is expected to receive his Ph.D. degree in August 2007.

Permanent address: 4F, 35, Aly 57, Ln 12, Sec 2, Academia Rd, Taipei, Taiwan

This dissertation was typed by the author.